

Examiners' Report
June 2018

GCE Business 9BS0 02

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Introduction

Overall this paper proved to be more challenging compared to last year. This was primarily due to a significant number of candidates revealing limited understanding of certain business concepts. Specifically these were: Economic influences (particularly exchange rates), employee legislation, Corporate timescales: short-termism versus long-termism and productivity. Consequently the mean mark and grade boundaries were lower this year. It is important that candidates are aware that questions can be set that cover any topic in the specification and need to ensure that they have complete understanding of them.

On a positive note, it is pleasing to report a general improvement in exam technique by candidates. Centres are to be congratulated for ensuring that their candidates now have a better understanding of how to structure their answers to ensure that they meet the demands of the question. Timing did not appear to be an issue, however this may be due to the fact that some candidates were unable to answer each question, freeing up time for the questions they could.

As always, stronger candidates revealed excellent knowledge of the specification, wrote well structured answers that were consistently focused on the question and revealed good insight into the actual business featured in the stimulus material.

Question 1 (a)

This proved to be an accessible question. Candidates revealed good understanding of internal finance and could explain a reason why it was used. Most candidates were also awarded application marks by providing examples from the stimulus material to support their reason, however a significant number wrote generic responses.

- 1 (a) Explain **one** reason Mumtaz has always used internal finance to establish and expand its business.

(4)

Internal finance is finance raised within the business in ways such as retained profit and personal savings.

One reason Mumtaz has always used internal finance is because it allows them to continue to expand by 'organic growth'.

It allows Mumtaz to remain a family run business without any and keep full

control of their profits. It also means

they don't have to pay any ^{extra} costs when accessing finance such as interest on bank

loans or provide dividends to shareholders which can allow Mumtaz to remain an LTD.



ResultsPlus
Examiner Comments

This response was awarded 4 marks. It reveals a correct definition, 2 valid examples: 'organic growth' and 'family business', which are used to support the reason.

- 1 (a) Explain **one** reason Mumtaz has always used internal finance to establish and expand its business.

(4)

Mumtaz may have used internal finance to establish and expand its ~~st~~ business as it is generally cheaper. With sources of finance such as owner's capital, the business does not incur large debts that may have a high interest cost. Bank loans ~~to~~ charge interest so that a company has to pay a greater sum back to the bank than it has loaned. ~~Our~~ internal finance is finance that is sought from within the business and can range from owner capital to retained profits. Allowing the business to grow organically.



ResultsPlus
Examiner Comments

This response was awarded 2 marks. It reveals understanding of internal reason and a reason for its use, but fails to score any marks for application.

- 1 (a) Explain **one** reason Mumtaz has always used internal finance to establish and expand its business.

(4)

Internal sources of finance mean that Mumtaz haven't borrowed money from external sources such as bank loans. Because of this, Mumtaz will not have to worry about paying back regular installments to their loans, this will reduce their monthly ~~extra~~ fixed costs. This can lead to Mumtaz being able to develop and diversify their products such as Halal baby food due to the extra finance they have. Therefore, Mumtaz will be able to penetrate new markets and increase their market share.



This response was awarded 3 marks. It revealed understanding of internal finance and a reason explained using the example of 'halal baby food', to illustrate application to Mumtaz.

Question 1 (b)

The majority of candidates were able to perform this calculation successfully. However many candidates revealed incorrect understanding of margin of safety. There were also many responses which revealed partial understanding, for example candidates who could calculate contribution per unit and/or break even, but were unable to calculate the margin of safety.

(b) Using the data in Extract B, calculate the margin of safety. You are advised to show your working.

(4)

$$MOS = \underline{\text{actual}} - BE \text{ Output}$$

$$\text{Break even output} = \frac{FC}{\text{Cont per unit}} \quad \left| \quad \frac{3m}{3} = 1m$$

$$\text{Cont per unit} = \del{4} 5 - 2 = 3$$

$$1.5m - 1m = 0.5 \text{ million units}$$



ResultsPlus
Examiner Comments

This response gained full marks. It reveals good exam technique by stating the formula for margin of safety and then each stage of the calculation.

(b) Using the data in Extract B, calculate the margin of safety. You are advised to show your working.

(4)

$$\text{Contribution per unit} = \text{Price per unit} - \text{VC}$$
$$\text{B/E} = \frac{\text{FC}}{\text{Contribution per unit}} = \frac{3\text{M}}{3} = 1\text{M}$$

$$\frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{3\text{M}}{3} = 1\text{M}$$

Margin of safety is ~~1M~~ 1M sales or more



ResultsPlus
Examiner Comments

This response gained 2 marks. 1 mark for the calculation of contribution per unit and 1 mark for the correct calculation of break even output.

(b) Using the data in Extract B, calculate the margin of safety. You are advised to show your working.

(4)

Margin of safety = actual output - breakeven output

Breakeven = fixed cost \div contribution per unit

Contribution per unit = selling price - average variable cost

$$£5 - £2 = £3 = \text{CPU}$$

$$F = £3\text{m}$$

$$3\text{m} \div 3 = 1\text{m}$$



ResultsPlus
Examiner Comments

This response was awarded 3 marks for stating the formula for margin of safety, correct calculation of contribution and break even output.

Question 1 (c)

Generally candidates revealed a good understanding of organic growth and were able to explain the benefits and limitations compared to inorganic growth. Stronger answers developed a line of analysis using the context of Mumtaz foods and the market it operated in. Stronger conclusions reflected this as candidates were able to identify a key reason whether or not organic growth was the right decision. Weaker responses commonly were based on the misunderstanding that organic growth is based on internal finance, whilst inorganic growth is based on external finance.

(c) Assess whether expanding by organic growth was the right decision for Mumtaz.

(10)

Organic growth means, a company growing in size/ revenue without the use of mergers or takeovers.

Expanding by organic growth was the right decision for Mumtaz as it will help them establish their brand during growth. As Mumtaz has its own premium brand name and does not sell the products under supermarkets' own brands, growing organically is the right decision as they will grow while the brand becomes more widely recognized, performing a merger/takeover ~~to~~ will lead to rapid growth however it will diminish the premium brand products Mumtaz makes by themselves. By growing organically Mumtaz will continue to grow steadily leading to more time to establish their brand and reputation meaning more customers will be attracted to a stronger brand leading to higher profits which can be re-invested back into the business for further organic growth ultimately making it the right decision for Mumtaz.

Expanding by organic growth was not the right decision for Mumtaz as they are losing out on ~~rapid growth~~ economies of scale.

By taking over smaller brands that are growing more popular not only will Mumtaz benefit from increased revenue, but will be able to enjoy cheaper goods, as buying in bulk often leads to lower prices. So by expanding through ~~take~~ in-organic growth ~~the business will have access to more benefits from economies of scale~~ Mumtaz will be able to buy more supplies at one time this leads to lower prices as supplies were bought in bulk which in turn lowers the unit cost meaning a higher profit margin for Mumtaz. Making ~~the~~ ~~the~~ organic growth the wrong decision for the business.

~~In conclusion Mumtaz should grow in~~

In conclusion organic growth was the right decision for Mumtaz as it allows them to build up their brand strength while slowly growing however it depends on opportunity cost as there could be a growing rival which can be taken over reducing competition and increasing overall profit.



ResultsPlus
Examiner Comments

This response was awarded Level 3, 5 marks. It revealed knowledge of both organic and inorganic growth and there is development with some use of context. However, overall this response lacks structure and the development of arguments plus overall judgement lacked depth.

(c) Assess whether expanding by organic growth was the right decision for Mumtaz.

(10)

I think that organic growth was ^{not} the ~~right~~ decision. One reason why ~~is~~ because the business will continue to have a strong relationship with its shareholders and continue to have a strong brand recognition.

One reason why I think it was not the right decision is because the ready meal group is growing by 15-20% a year. This means that the threat from new entrants will be increasing and if the company Mumtaz continues to grow at the pace they have been then ~~there~~ will be the company may suffer. For example as the group is growing a significant amount then new companies going through rapid growth will overtake Mumtaz and therefore Mumtaz will lose out on market share and therefore may have a negative effect on the business.

One second reason I think that expanding by organic growth is not the right option for Mumtaz is because the business could expand much quicker if they were to have external investments. For example if Mumtaz took out a bank loan then they could expand and build their manufacturing operations plant in asia alot quicker than they could by just expanding organically. This could have more benefits as the company could potentially grow much quicker into new markets and achieve lower costs which could boost revenues.

~~One~~ However one reason why I think Muntaz should expand organically is so that they will save money, one example of this is that by taking out bank loans or not using internal finance it means that the business will have to pay interest on the money that they have borrowed, this means that the cash outflows may increase which may lead to profits/revenues being reduced compared to if the company expanded organically. Therefore organic growth was the right decision.

In conclusion I think that expanding organically was the right decision for Muntaz as they are a private limited company and by expanding organically it means that the business is more efficient with their money e.g. by using retained profits meaning that the business will avoid any unnecessary charges.



ResultsPlus
Examiner Comments

This was considered to be a weak response. Level 2, 3 marks. The first paragraph attempts to explain a disadvantage related to organic growth with some use of context. However the rest of the answer is linked to sources of finance and is not related to the question.

organic growth is where a firm expands using internal resources and marketing strategies.

On one hand expanding through ~~the~~ organic growth was right for Mumtaz as they were able to retain their strong family run values and basis on culture in the Asian food market. This allowed Mumtaz to build a strong branding of a 'premium brand name' which would have made them a very attractive supplier from large companies such as Asda and Tesco who were aiming to expand their food range in a growing multi-culture target market. This allow Mumtaz to retain all the profit gained from sales to larger supermarket retailers without paying dividends in order to reinvest and expand into Hold baby food. However maintaining a strong relationship with Tesco relies on Mumtaz maintaining their high level of quality ready meals in order to remain competitive against cheaper substitutes.

on the other hand organic growth may not be right for Mumtaz as they have a limited £25m revenue to reinvest into expanding their production to overseas Asian manufacturing. This equity may not be sufficient to set up a high quality production line whereas merging with an existing Asian manufacturer of ready meals would allow Mumtaz to share

machinery and skilled labour in order to ensure an efficient production of their ready meal range. Therefore allowing them to meet the increasing annual demand of 15-20% immediately rather than losing competitiveness during the set up time of their Asian factories. However producing abroad depends on a strong pound in order to maintain low import costs to remain price competitive against budget substitutes such as Lidl.

In conclusion in the short term organic growth is right for Muntaz as it allows them to retain their family values in order to build a strong UK brand and high quality and reputation. However as ready meal demand continues to increase they may want to look at merging with an overseas producer in order to globalise their Asian food brand and benefit from economies of scale when supplying.



This response was awarded Level 3, 9 marks. It provides good understanding of the benefits and limitations of organic growth, with well developed lines of argument consistently in context. The conclusion is well supported by the prior analysis and identifies a key reason to justify why organic growth was the correct decision.

Question 1 (d)

This question proved to be an effective discriminator between candidates. Stronger responses made selective use of the data, revealed good understanding of the economic factors and specifically how they would affect Mumtaz. There was effective use of both price and income elasticity to develop lines of argument. Many candidates wrote lengthy responses which considered all of the economic factors, rather than focusing on a few. Another common mistake was to write generic responses with no application to Mumtaz. A common weakness was misunderstanding of exchange rates. Candidates generally recognised that the £ had depreciated, but incorrectly interpreted the consequent effects of this on Mumtaz.

(d) Using the data in Extract C, assess the likely impact of the forecast changes in the UK economy on a business such as Mumtaz.

(12)

One possible impact of the forecasted changes in the UK economy on Mumtaz is that they could experience higher sales. The UK economy is expected to grow half a percent quicker in the future. This would mean that incomes are likely to rise as a result of this. This in turn would mean that consumers should have more income to spend. Therefore, as Mumtaz is a premium brand consumers with a now larger income may choose to purchase the premium brand Mumtaz products as opposed to an inferior super market brand product. This would be beneficial to Mumtaz as it could lead to higher demand for their products, leading to a potential rise in sales revenue, therefore possibly improving profitability of Mumtaz.

However the UK economy forecast also suggests a rise in unemployment of 1.7% in the future which may harm Mumtaz' sales. With increased unemployment, less people will be gaining income. With less income, people may choose to buy inferior super market brand goods instead as they can't afford to pay a premium price for Mumtaz's products, which would lead to reduced demand for Mumtaz's products and a possible fall in sales revenue which

is harmful to business profitability.

Overall I believe the changes in the UK economy to negatively affect Mumtaz as unemployment seems to be rising quicker than economic growth meaning that the issue of unemployment would be more serious than rising incomes. Also rising GDP is more likely to affect those on high incomes anyway who are likely to pay premium prices anyway, however increasing unemployment is more likely to affect low income earners who will now be less likely to pay premium prices for their ready meals.



ResultsPlus
Examiner Comments

This response was awarded Level 3, 8 marks. It reveals good technique by selecting 2 economic influences, each of which is developed using the context of Mumtaz. The conclusion is supported by previous arguments, but lacks additional insight.

(d) Using the data in Extract C, assess the likely impact of the forecast changes in the UK economy on a business such as Mumtaz.

(12)

Forecast changes are the predicted changes in the economy over a period of time.

A business such as Mumtaz may benefit from forecasted changes as gross domestic product is forecast to raise by 0.5% by 2020 this means that the economy will be facing higher prices on the products they buy. This could benefit Mumtaz if they keep their products at affordable prices as customers will look into buying inferior goods in cheaper supermarkets such as Asda, where they currently sell their products. On the other hand, these supermarkets also sell ready meals under own brand labels, meaning cheaper options for customers. Therefore Mumtaz must achieve brand loyalty from its customers before 2020 to ensure customers still buy their ready meals. Mumtaz have a ~~asp~~ unique selling point as not many halal baby food & products are available. R

* In conclusion, Mumtaz have

opportunities to also create jobs as unemployment will rise by 0.7% by 2020 meaning the opening of a second factory in Bradford will have created job opportunities for many people. Muntaz could dive into making the most of the forecasted changes in the UK economy if it plans ahead to be ready for changes such as economic growth and inflation.



This was considered to be a weak response. It was awarded Level 1, 2 marks. There is recognition of the changes in GDP and unemployment, but the development is either incorrect or based upon assertion. There is no evidence of judgement.

(d) Using the data in Extract C, assess the likely impact of the forecast changes in the UK economy on a business such as Mumtaz.

(12)

Extract C shows that Economic growth will rise from 0.5% in 2016 to 1% in 2020.

This change indicates that consumers incomes are increasing therefore spending in the economy will increase. The impact of this on Mumtaz is that their sales should increase leading to higher profits. However, the change in GDP might not be representative of those on lower incomes who are more likely to buy Mumtaz' ready meals so therefore sales may not increase.

Another impact shown in extract C is that inflation is expected to rise from 1.2% in 2016 to 2.7% in 2020. Inflation is the general and sustained rise in price levels. These figures indicates that prices are going to rise in 4 years which means that Mumtaz will be charging a higher price for their products and customers might not be happy about it so may buy less of their products. However, this depends on the elasticity of the product because if it is price inelastic people will

continue to purchase it or if it is an inferior good, demand will fall. Also, extract D states that "sales of ready meals benefited from the trend towards premium products" which suggests that Mumtaz could charge higher prices and consumers would still buy it because they feel it's a premium product.

To add, extract C shows unemployment increasing to 6.5% in 2020 which means there will be a high supply of labour, therefore Mumtaz would be able to give lower wages which would reduce his total costs and increase his profits. However, the increase in unemployment also means that people will be spending less in the economy because they have a lower disposable income, therefore sales for Mumtaz might be lower.

In conclusion, the impact of the forecasted changes is shown to be both positive and negative for Mumtaz. The overall impact would be positive because economic growth is good for a business as it is potential for more sales.



This response was awarded Level 4, 11 marks. It reveals good exam technique by selective analysis of 3 economic factors. Each of these are well understood and their effects on Mumtaz well developed. For each factor, there is evidence of both positive and negative effects, leading to a supported judgement.

Question 1 (e)



This proved to be an accessible question. Candidates were generally able to provide arguments for both options, supported by evidence from the extracts. The discriminator between **students** was exam technique. Better responses focused on fewer arguments, but these were well developed with consistent use of context. Each argument was consistently focused upon the objective of becoming market leader. Overall judgement was based upon prior arguments but identified a key reason for recommending an option linked to Mumtaz's situation. It is pleasing to note that more candidates are using the MOPS technique rather than simply repeating previous arguments. MOPS considers the Market that the business operates in, its Objectives, type of Product sold and current Situation.

Weaker responses tended to identify several arguments, but these were poorly developed with descriptive use of context. Judgement tended to be based upon assertion.

Mumtaz's aim is to become the UK's market leader in Asian ready meals. To achieve this, it could produce own label ready meals for supermarkets or focus on selling more Mumtaz premium brand name products.

(e) Evaluate these **two** options and recommend which is most suitable for Mumtaz to achieve its aim.

(20)

On the one hand Mumtaz could continue to follow a market penetration strategy of maximising sales of Supermarket own brand ready meals. This would be a good strategy for Mumtaz as they are already being sold by large retailers such as Tesco who hold 18% of the dominant 68% own brand ready meal market share. Because of this market advantage point Mumtaz is reaching a very large number of target customers which is continuing to grow through the increase of 'single-person house holds'. Mumtaz can therefore use Tesco's established brand name and reputation to ensure a large amount of sales allowing them to reinvest into expanding their Asian flavour portfolio allowing them to become a UK market leader in Asian ready meals. However despite the guaranteed interest of consumers in a Tesco's product sales will not continue unless Mumtaz is able to offer a high quality Asian ready meal. This relies on having good quality suppliers and a lean production line quality assurance scheme in order to develop a good reputation based on flavour which in the long term will develop a loyal customer base with demand leading to increase in

production size and ultimately market share ownership. However on the other hand Mumtaz should focus on selling more products under their own premium brand name. Because of the 2% growth of the ready^{meal} market and a move towards more luxury products Mumtaz would be able to exploit a more luxury target market in order to produce high quality meals at a premium price. This would not only allow them to build their own unique branding it would also be profitable allowing them to reinvest into new emerging food markets such as take out food allowing them to become a UK market leader through good quality diversification. However creating a premium brand image relies on Mumtaz being able to produce a strong marketing scheme targeting the Asian food market at a low cost in order to remain profitable within the luxury demand market. This may lead to a trade off in production quality in the short term, whilst developing a premium brand, which in the long term will see a drop in customer loyalty as they turn to more reliable premium ready meal brands such as Waitrose - decreasing their UK market share.

In conclusion Mumtaz should focus on continuing to produce under Tesco's own brand label in order to retain enough equity in order to enter the

growing premium market with a strong Asian brand image with high quality ready meals in order to enter as a differentiated leader (as identified by porter's strategic mix). Leading to Mumtaz generating strong initial interest and high sales allowing them to gain market share as a strong UK market leader with a wide range of ready meal products.



ResultsPlus
Examiner Comments

This response was awarded Level 3, 11 marks. It provides developed arguments for both options with consistent use of context, leading to a supported judgement. Some of the arguments were not fully developed and the overall judgement could have provided more insight through use of the MOPS technique.

Mumtaz's aim is to become the UK's market leader in Asian ready meals. To achieve this, it could produce own label ready meals for supermarkets or focus on selling more Mumtaz premium brand name products.

(e) Evaluate these **two** options and recommend which is most suitable for Mumtaz to achieve its aim.

(20)

A market leader is the firm that has the most market share in a market. For Mumtaz to reach its aim of market leader then they could ~~also~~ produce their own label ready meals for supermarkets, which could work because supermarkets own label ready meals for supermarkets has got a combined market share of 68% and Tesco are leading with 18%, which shows that Mumtaz would be successful if they were to produce for the supermarkets but they would have to risk losing power to produce for the suppliers of ready meals but it depends on ~~how~~ how many suppliers that are in the ready meal market because if there is high competition then they would have to sell at low prices to attract the bigger firms to buy their ready meals, however Mumtaz could ~~also~~ focus on selling more of their ~~brand~~ own premium brand named products this would allow Mumtaz to charge higher prices because of the premium brand and they would also gain more brand loyalty which means that they would gain higher sales revenue because of the premium prices and there would be an increase in the sales volume due to the ~~higher~~ repeat purchases that come with brand loyalty but these depend on the PED of the ready meals also the consumer behaviour because they may not be loyal. Another benefit of Mumtaz selling their own ~~product~~ ready meals instead of producing

So the bigger firms is that ~~is~~ there is an increase in single person households in the UK and they will rely on convenience, which means that there will be an increase in demand for ready meals so Mumbaz will directly be able to benefit from this instead of the bigger firms that they could be supplying for. Overall I think that Mumbaz should focus on selling their own ready meals because they will gain profits directly, they won't have to supply for other firms but they will miss out on the combined markets there but that will be gained from brand loyalty anyway.



ResultsPlus
Examiner Comments

This response was awarded Level 2, 7 marks. It contains a range of arguments for both options, but development of these are usually incomplete. There is some use of context, but it is used in a mainly descriptive way. Judgement is only partially supported.

Mumtaz's aim is to become the UK's market leader in Asian ready meals.

To achieve this, it could produce own label ready meals for supermarkets or focus on selling more Mumtaz premium brand name products.

(e) Evaluate these two options and recommend which is most suitable for Mumtaz to achieve its aim.

(20)

Own label ~~ready meals~~ brands are brands that do not have a premium tag on it. Consumer trend has shifted towards more premium products in the UK. This suggests that people are willing and able to buy ~~price products~~ premium products that have a premium price tag on them. This is largely due to the convenience as well as the growing no. of single-person households. Therefore, Mumtaz should focus on selling more premium brand name products to meet the ~~cost~~ growing consumer demand for it. This would provide them with greater number of sales - given that premium products have an inelastic demand - which can help them to gain higher sales revenue and higher profit margins. This would be extremely beneficial and better than producing own label ready meals because it can help Mumtaz to become the market leader ~~and can also~~ and can also provide them with a competitive advantage if they focus on selling more premium brand products; increasing productivity, as well as lowering average ~~costs~~ costs for the ~~the~~ ^{Freddie Ltd} company. However, the extent to which Mumtaz can focus on producing more premium products depends on the threat of new entrants. (2% increase in ready meals market)
A growing demand for these products can attract more

competition, which may ~~so~~ force Munkaz to become more efficient but it may also make it difficult for Munkaz to become a market leader which ~~is~~ can be one of their corporate objectives.

On the other hand, selling more own label brand could be more beneficial to Munkaz as they would be able to plan on developing a new product ^{in the market} that is cheaper and value for money for customers. Own label brands ^{of supermarkets} ~~are~~ ^{have} remained the leader in ready meals with Tesco having 15% of it. This is a good opportunity for Munkaz to sell own label ready meals for supermarkets and gain a competitive advantage over its competitors. Tesco and other supermarkets also sell Munkaz products. They have a good reputation in the market. By producing own label brands for supermarkets, Munkaz can expect to lower its average costs given the size of this market - peaking at 68% for ready meals. So they can achieve economies of scale and increase productivity which can provide them with higher returns through higher profitability. This can help ~~them~~ them to build a strong relationship with supermarkets and in turn help Munkaz promote its products around the UK. However, supermarkets rely ~~so~~ heavily on price discounts and promotional activities which means that Tesco (other supermarkets) require very low costs in order to be profitable ~~so~~ so supermarkets may renegotiate prices that Munkaz ~~is~~ charges and force them to lower them; reducing their profitability.

It can also lead to brand dilution.

Mumtaz is a food group that produces ready meals for supermarkets. They Their aim is to become the market leader in the Asian ready meals industry. To ensure success in ~~their~~ their objective, they should continue to focus on producing premium products that have a high profit margin on them and given the growing demand for their product, it is likely that Mumtaz could become the market leader. But given the situation of UK economy, ~~the~~ the GDP would rise by 0.5% by 2020, but inflation would also increase to 2.7%. This can discourage demand in the long run and also the extent to which Mumtaz stays a market leader leader for is short term.



ResultsPlus
Examiner Comments

This response was awarded Level 4, 17 marks. It provides well developed arguments for both options, with consistent use of context. There is judgement throughout, evidenced by the explanation of a counter argument for each option. The overall judgement is supported and provides insight through the use of MOPS, in this instance by reference to Mumtaz's product and the market that it operates in.

Question 2 (a)

This proved to be an accessible question. Candidates showed good understanding of internal causes of business failure and applied it to MG Rover. However the majority of candidates only scored 1 of the 2 application marks available.

2 (a) Explain **one** internal cause of the business failure of MG Rover Group.

(4)

One internal cause of the business failure of MG Rover Group was a lack of innovation. This is because MG Rover Group did not innovate anything new or improved which lead to a fall in competitiveness, so they lost demand to foreign manufacturers like Toyota. Therefore MG Rover Group were unable to continue producing as contribution were not enough to cover fixed costs, leading to business failure.



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Examiner Comments

This response gained 3 marks. The candidate correctly explains a reason for business failure and gains an application mark for the consequence of losing sales to foreign competition.

2 (a) Explain **one** internal cause of the business failure of MG Rover Group.

(4)

One internal cause of the failure was internal rivalry between Triumph and Rover. This may have lead to rivalry within the firm and tensions arising due to this. This lead to the failure of the MG Rover group.



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Examiner Comments

This response was awarded 2 marks. 1 mark for the reason of intense rivalry between competing brands and the second mark for the explanation.

2 (a) Explain **one** internal cause of the business failure of MG Rover Group.

(4)

One internal cause of business failure of MG Rover Group is high production costs. The original mini made minimal profit due to high production costs.

This is a cause of MG Rover Group's failure because this means that their profit margins were small.

Even though millions of units were sold the high production costs meant small profit. This was an internal cause of business failure because less retained profit means less working capital. If MG Rover Group doesn't have enough money to pay their liabilities they can become insolvent and therefore, go bankrupt. This means high production costs were a ~~near~~ major cause of MG Rover Group's business failing.



ResultsPlus
Examiner Comments

This response gained 4 marks. The reason for high production costs was explained with 2 examples from the extract to support the explanation.

Question 2 (b)

The majority of candidates performed this calculation correctly. 2 different approaches were commonly used, both resulted in the same correct answer. Generally candidates wisely showed the steps in their calculations.

- (b) Using the data in Extract F, calculate the monthly labour cost per car. You are advised to show your working.

(4)

output = 20,000 cars

workers = 400

labour costs per worker per month = £2000

$20,000 \div 400 = 50$ cars per worker

$2000 \div 50 = \underline{\underline{40}}$



ResultsPlus
Examiner Comments

4 marks awarded. Each stage of the calculation correct.

(b) Using the data in Extract F, calculate the monthly labour cost per car. You are advised to show your working.

(4)

$$\text{Monthly labour cost per car} = \frac{\text{Monthly output}}{\text{No. of labourers}}$$

$$= \frac{20000}{400}$$

$$= 50 \text{ cars / month}$$

$$50 \text{ cars} \times £2000 = £100000 \text{ annually}$$

$$\therefore \text{Monthly labour cost per car} = £8333.3$$



ResultsPlus
Examiner Comments

2 marks awarded for correct calculation of labour productivity.

(b) Using the data in Extract F, calculate the monthly labour cost per car. You are advised to show your working.

(4)

~~2000 £40 = 50 cars per member per month~~

$$2000 \times 40 = \text{£}80,000$$

$$\frac{80,000}{20,000} = 4$$

£4 per car per month
labour cost.



ResultsPlus
Examiner Comments

0 marks awarded. Calculation error for monthly labour costs which is carried through. The OFR 'own figure rule' is not used for calculation questions.

Question 2 (c)

This surprisingly proved to be a challenging question for many candidates. In fact a significant number did not even attempt it. Weaker responses typically did not focus on employee legislation and talked about the general effects of legislation instead. Better responses were able to identify and develop both positive and negative effects of employee legislation with specific reference to VW.

(c) Assess the likely effects of employee legislation on a business such as VW.

(10)

Employee legislation such as health and safety requirements could force VW to increase costs to meet these requirements and train employees in safety matters. These have opportunity costs as VW could spend this money elsewhere ~~as~~ which could be very ~~important~~ important to VW as ~~the~~ they are currently shown to be struggling and these employees ~~could be helping~~ will have to stop working to complete their training which could therefore decrease productivity and therefore worsen profitability even more.

However this could as a result ~~decrease~~ reduce lawsuits as there are likely to be less accidents for employees.



ResultsPlus
Examiner Comments

This response was awarded Level 2, 5 marks. It correctly identifies health and safety legislation, which is developed with some use of context. The counter balance is identified but not developed and there is no overall judgement.

(c) Assess the likely effects of employee legislation on a business such as VW.

(10)

Employee legislation may not drastically affect VW as it already has high labour costs. Seeing as the company has already cut 30,000 jobs in its diesel car production it would not be able to afford a rise in income created by employee legislation. The increased cost of paying its employees may financially cripple a business. The \$15 bn fine would have led to great financial difficulty for the company. ~~The mobility of its employees may be bad for VW~~

The change in legislation may ultimately help VW increase the amount of employees it has and the amount of hours they have. Legislation lowering average wage may help to economically help VW achieve industrial power.



ResultsPlus
Examiner Comments

This response was considered to be Level 2, 3 marks. It identifies the effect of higher labour costs with some use of context, but the development is limited.

(c) Assess the likely effects of employee legislation on a business such as VW.

(10)

Employee legislation refers to laws/rules in place to protect employees in the work place. This could include fair pay/healthy and safety regulations like good working conditions.

One impact of employee legislation on a business such as VW is increased costs. This could include higher wages or making working conditions better. This could lead to VW to begin seeing employees as a cost rather than an asset. This could reduce employee motivation which in turn affects productivity. This is very significant for VW as they already have weak profitability so if they had to pay for more recruitment/training due to higher labour turnover then they may lose profitability.

However, one benefit of employee legislation for VW could be improved employee motivation. This is because better wages and working conditions could make employees feel ^{valued which leads to better motivation} more motivated - as suggested by Maslow. This would improve productivity and create a more positive business culture. This would be extremely beneficial for VW as having a positive business culture would aid their brand image which is very

negative right now. This is due to the checking of emissions target, \$18 bn fine and cutting 30,000 jobs globally.

To conclude, I believe, in the long term, that employee legislation will improve VW through the transformation in brand image and increased productivity through motivation - which should help counterbalance the increase cost.



This response was awarded Level 3, 10 marks. It reveals good understanding of employee legislation. Both negative and positive effects are well developed with consistent use of context, leading to a supported judgement.

Question 2 (d)

This proved to be the most challenging question on the paper. Despite the reference to corporate timescales at the start of the question, most candidates ignored this and instead discussed the merits of the AA shares as a vehicle for raising finance. Although these responses were credited, they lacked the understanding that the question was about short versus long-termism. This is obviously a topic that many candidates have limited understanding of.

Corporate timescales can be short-term or long-term.

(d) Assess Toyota's decision to issue 'Model AA' shares as a means of raising finance. ^{→ long term} ^{→ Share holders}
(12)

Toyota's decision to issue 'Model AA' shares which are held for 5 years and cannot be sold earlier could have potential benefits in raising finance.

~~Model~~ Model AA shares guarantee dividends that increase each year of the 5 year period. This could be beneficial in raising finance as it guarantees income for 5 years meaning long term investments are put in place for the future of the company. The implication of Model AA could therefore be beneficial in order to raise finance due to the fact the long term investment guarantees future investments in order to benefit the company over the course of the 5 year period. Other potential benefits include, the opportunity of raising \$4 billion in order to invest in the company's future in ensuring success and innovation of product to gain a competitive advantage. In being able to resell or reinvest into the company, Toyota can almost guarantee prolonged

future investments. Therefore showing the potential success of Toyota in raising finance.

However, analysts argue that Model AA is sheltering managers from potential dangers and offers protection from the demands of shareholders. This shows Model AA may not be successful in raising finance for Toyota as the general opinion towards the protection of managers may discourage or deter potential investors.

To conclude I believe that despite the potential risks of deterrence of investors, Model AA would be a successful way to guarantee long term investment and therefore secure the future of the company.



This response was awarded Level 2, 4 marks. It reveals some understanding of long-termism and attempts to develop this in context. There is a reference to short-termism but limited understanding.

Corporate timescales can be short-term or long-term.

(d) Assess Toyota's decision to issue 'Model AA' shares as a means of raising finance.

(12)

Some people may agree with Toyota's decision to issue "Model AA" shares as a means of finance due to the fact that ~~to~~ it is a short term solution that allows Toyota to raise capital from shares which they can re invest into the business or specifically "the car of the future" which could ~~lead to~~ help them make more money in the long term by how well it sells and if the demand is there for it. However this is only a short term solution and ~~after the~~ after the 5 year period ends Toyota will ~~either~~ have to ~~sell back~~ buy back the shares at the price the shareholder paid which could lead to a massive loss if ~~the~~ plans of that 5 year course do not work out due to external factors. One reason why this might be a good idea could be due to the fact that over those 5 years the firms managers are sheltered from the pressure to drive share prices up and can instead focus on finding a

a long term solution for raising finance such as developing a successful product in which they can use to keep reinvesting money into the business. In conclusion I would not agree with this method of raising finance as the risk is too high especially in the long term.



This response was awarded Level 3, 5 marks. It identifies and develops arguments both for and against the AA shares with some use of context. There is some confusion regarding the notion of short-termism.

Corporate timescales can be short-term or long-term.

(d) Assess Toyota's decision to issue Model AA shares as a means of raising finance. (12)

Toyota's decision to issue 'Model AA' shares as a means of raising finance will benefit Toyota because it prevents shareholders from selling their shares within 5 years. This is a benefit to Toyota because the money Toyota gain from applicants can be used or stored for at least 5 years without dispute from applicants. Furthermore, if Toyota's share price rises or falls significantly within five years then there is little risk as shareholders cannot sell their shares. These finances will help fund the car for the future which Toyota can likely to believe it to be very profitable and should generate finances in the long-term future. However, increased dividends payments have to be paid each year so annually the dividends cost to Toyota is rising which could limit the level of finance raised.

Model AA may not benefit Toyota because it is a very long term approach that traps investors for 5 years. For example, Toyota may experience a rise in their share price due to falling demand for a rival car e.g. Citroen however those shareholders cannot sell their share and are therefore missing out on making individual financial gains therefore once the 5 years is up it is unlikely the shareholders will be satisfied as the share price may no longer be high so they will be unwilling to re-invest into Toyota. However, the Toyota managers agree with the

Scheme and see it as a response to short-termism so Toyota is clearly looking to raise finance in the long term as opposed to short term gains so by adopting Model AA long term finance should be raised however more short term finances may potentially be gained due to share price fluctuations.

Overall, I think 'Model AA' is a good method of raising finance at Toyota as it guarantees finances for 5 years as shareholders cannot sell their share until 5 years has passed, this prevents short termism as many shareholders may come and go as the share price rises and falls however Model AA prevents this by locking shareholders in for 5 years. By doing so, Toyota can use the finance gained to invest into the 'car for the future' as they look to gain profits from this investment. 'Model AA' reduces the risk as long as they invest, shareholders will not be able to sell their shares. The success of 'Model AA' depends on how willing the public are to invest their own money and not receive any reward until 5 years time.



ResultsPlus
Examiner Comments

This response was awarded Level 4, 11 marks. It reveals good understanding of corporate timescales as well as developing arguments for and against the use of AA shares with consistent use of context. The overall judgement is well supported by the previous analysis.

Question 2 (e)

This question proved an effective discriminator. Most candidates were able to provide valid arguments for the 'self-driving cars' option. However many candidates revealed incomplete understanding of productivity. A common misconception was that increased productivity meant increased production. Other weaknesses included a discussion of the causes of VW's poor productivity and/or methods how to improve productivity rather than the benefits VW may enjoy from improved productivity.

Stronger candidates revealed good understanding of both options, wrote selective well developed arguments with consistent use of context and provided a supported recommendation. There was consistent focus on the objective of increasing profitability and use of 'MOPS' in providing a justification for the recommended option.

VW's new Chief Executive has been given the aim of increasing the company's profitability. The two options VW is considering are to develop a new range of self-driving cars or to improve productivity.

(e) Evaluate these **two** options and recommend which is most suitable to achieve the aim of increasing profitability, for a business such as VW.

(20)

Productivity is the output per worker over a given time period. Product range is a collection of goods of a business.

I believe that improving productivity would be the most suitable option for VW. This is because VW aims to create 9,000 new jobs as it shifts to self-driving cars. By employing more workers it would lead to a larger workforce meaning more workers producing output leading to higher output, and possibly lower costs as VW could benefit from economies of scale as a result meaning higher amounts of goods sold leading to an increase in sales, which would mean higher profits for VW, leading to higher profit margins and an improvement in profitability for VW.

However, ~~workers~~ in the extract it's said that VW had suffered from high labour costs, therefore, employing new workers could lead

to higher costs being incurred by VW meaning lower profits and lower profitability. Furthermore, workers need to be motivated otherwise they won't be as productive, according to Taylor the main thing that motivates workers is money as they should make as much as they produce, ~~this could also be~~

I believe developing a suitable range of self driving cars may also be suitable. This is because of the fact that in the extract it states VW wants to shift to 'self driving cars'. ~~This is because of the fact that~~ Therefore, by developing a new range of products, the business would be more motivated leading to innovation leading to them developing a unique selling point which could mean they would be able to charge higher prices for their products as it's different from competitors leading to higher profit per product, leading to higher profits for VW meaning higher profit margins and an improvement in the profitability of VW.

However, in the extract it states 'it's the biggest modernization programme in the history

of the groups core brand. Therefore, by developing these new products it would mean that VW would incur high short term costs which may include market research, development and marketing the product which would increase cost and reduce profitability of the business.

Overall, I believe VW should develop a suitable range of self driving cars. This is because developing these cars is their objectives for the future and by developing these cars they would benefit from higher sales and higher profits in the long term. VW is a very large business so costs incurred from developing the new product would not affect VW as much. Furthermore, VW had to cut 30,000 jobs, due to low profitability and high labour costs so by increasing productivity by having more workers or motivating through money may be expensive and may not give them a long term advantage that developing ^{their} self driving cars do.



ResultsPlus
Examiner Comments

This response was considered to be Level 2, 8 marks. The arguments for 'self driving cars', were developed in context, but arguments for productivity revealed confused understanding. Consequently this undermined the support for the overall recommendation.

VW's new Chief Executive has been given the aim of increasing the company's profitability. The two options VW is considering are to develop a new range of self-driving cars or to improve productivity.

(e) Evaluate these **two** options and recommend which is most suitable to achieve the aim of increasing profitability, for a business such as VW.

(20)

Productivity is the output per worker.

Increasing productivity is best for VW as it lowers their unit costs. As VW suffers from "waste" productivity, increasing their productivity will lower unit costs for VW. Having lower unit costs increases the profit per unit and therefore makes the VW more profitable. This can be also good for VW as waste may decrease, making VW more ethical. However this may only work for the short term as staff soon become unproductive again due to VW's culture.

Increasing productivity is not the best option for VW as something needs to change within the business to make the staff more productive. This may be ~~so~~ something like increasing the pay the workers get or giving them a stake in the business so they have have a passion to see it be successful. The problem with these ~~methods~~ ^{methods}

of increasing productivity is that they all cost money to implement. Therefore VW may not become more profitable if they make staff more productive. However, staff may become more productive with a change of the mission statement. This can allow staff to see what the business plans to achieve and therefore increase profitability for VW.

VW should develop self driving cars as this is where customer trends are moving towards. As the car industry is a dynamic market and is always changing, developing self driving cars gives VW a "real shake-up" and therefore allows them to be competitive with big businesses such as Tesla. The self driving cars can be targeted at the rich consumers and can allow VW to generate bigger profit margins in this market. However this is a niche market so profit will be limited.

VW shouldn't develop self driving cars as they only appeal to a niche market and therefore either have to be ~~cost leadership~~ cost focussed or differentiate focussed according to

Porter's strategic model. VW will struggle to be differentiated in the self driving market as there is already well established dominant firms such as Tesla in this market and therefore differentiated ~~per~~ self driving cars will be very limited as VW ~~would~~ will spend the majority of their investment on ~~making~~ designing the self driving cars and there will be little investment left on making them different to rivals. ~~the~~ Therefore this will lower profitability as Tesla will generate all the profits. However, there will be some demand as people who are brand loyal to VW may buy this.

To conclude, I think that VW should invest in improving productivity as they already suffered from weak productivity and therefore improving it will make them more profitable. However this depends on how much is being ~~needed~~ needed to spend to improve the productivity, as the investment may be more than the benefit of the lower cost. Also it is only short term as staff may become unmotivated again in the long term.



This was considered to be a strong response and was awarded Level 5, 18 marks. It reveals good understanding of both options. Arguments and counter-arguments for both options are well developed with consistent use of context. The recommendation is well supported and reveals use of 'MOPS' by recognising VW's current situation is that it needs to immediately address the issue of improving productivity, before moving onto the long term decision of developing self-driving cars.

range
↓ ↓ modern productivity → inc no. of machines → inc output / lower labour costs.

inc product portfolio → differentiate → customer satisfaction.
VW's new Chief Executive has been given the aim of increasing the company's profitability. The two options VW is considering are to develop a new range of self-driving cars or to improve productivity.

(e) Evaluate these **two** options and recommend which is most suitable to achieve the aim of increasing profitability, for a business such as VW.

(20)

VW could increase profitability by developing a new range of cars eg self driving cars.

~~This could~~ These new cars would relate to 'the biggest modernisation programme' allowing them to adapt to trend and also differentiate their products over firms such as Uber.

This relating to porters theory as they have used differentiation leadership by doing it in a mass market. This meaning VW can remain competitive as a wide range of products are sold.

This resulting in VW gaining more customers as they ~~is~~ move towards new technology - allowing them to increase revenues. These extra revenues can then contribute to the 15 billion

just payed out due to cheating emission tests. So can increase profits for the business therefore leading to an increase in profitability due to innovative ideas being produced in

such a mass market. However, to produce / create these new self driven cars a lot of money will be needed to research this new market ~~and~~ as its new ~~is~~ and costs will be

high to produce such smart technological cars. This is adding to the extra costs of wages for the new ~~30,000~~^{9,000} jobs so could be seen to reduce the level of profitability.

Alternatively, VW could increase ^{improve} productivity to benefit the profitability of the business. This could be done by motivating staff members eg the ~~30,000~~^{9,000} new employees globally. These staff members could be motivated by using motivational techniques such as Job Rotation allowing them to complete a variety of tasks to contribute to the production of these smart self driven cars. This could be done by varying between being on production line to working in stores or even marketing. This increase in motivation will allow VW to remain productive and efficient allowing them to have a high capacity utilisation by producing a lot of cars. This allowing them to offer more over competitors such as Uber as it will offer more self driven cars for businesses as more can be produced. This meaning an increase in demand which can improve sales revenue and increase profitability. However, due to VW cutting 30,000 jobs

staff may be demotivated to produce ~~these~~
~~new cars~~ so these techniques may not work as
they feel unsafe working for VW. This relating
to Maslow's hierarchy of needs - and due to
safety not being met; motivation ~~is~~ may decrease.

To conclude, I feel VW should develop a
new range of self driven cars as it will
mean they are differentiating and reacting to
technological trend in the market. This will
allow VW to remain competitive as many products
are available leading to customer satisfaction due
to a wide range of choice. It may be beneficial
for VW to ~~not~~ reduce staff levels as this is an
extra cost for the business which will reduce
the aim of profitability due to already being
in 15bn debt. However, this will depend
upon how well the new self driven cars are
advertised as they are new so may not result
in high sales - reducing profitability.



This response was awarded Level 3, 13 marks. The 'self-driving cars' option was well developed with good use of context, with arguments both for and against. However the 'productivity' option revealed confused understanding. Consequently the answer lacked balance, which affected the overall recommendation.

Paper Summary

Based on their performance in this paper, candidates are offered the following advice:

- ensure that all topics in the specification are covered and understood
- revise business formulae thoroughly and practice calculations regularly
- remember that there are 2 application marks available for the 4 mark 'Explain' questions
- focus on making fewer points for the 10,12 and 20 mark questions, but make sure that each one is well developed and supported by the business context
- remember that the 10,12 and 20 mark questions need to be balanced, with both arguments for and against
- use the 'MOPS' technique when making judgements and recommendations, rather than simply repeating previous arguments

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

