



Mark Scheme (Results)

October 2020

Pearson Edexcel GCE A Level
In Business (9BS0)

Paper 3: Investigating business in a competitive
environment

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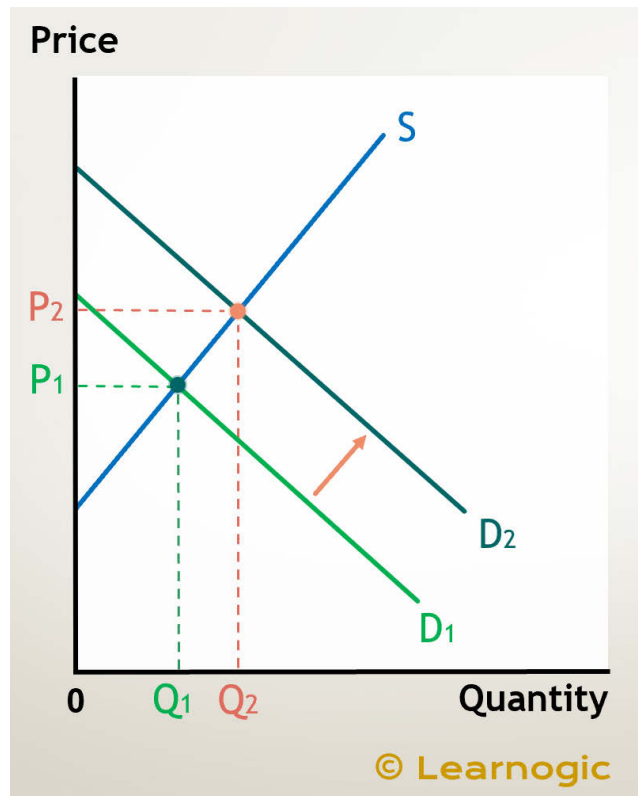
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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Indicative content	Mark
1 (a)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Marks for application and analysis include up to 2 marks for quantitative skills Quantitative skills assessed: QS3: construct (and interpret) a range of standard graphical forms • Revenue is income from sales • Determined by prices multiplied quantity actually sold Reasons why business revenues increased: • The number of visitors to festivals increased which may have been caused by better weather. More money is therefore spent on tickets and on merchandise. • New shows and performances released, e.g. Hamilton, which attracts more customers who will spend on tickets and refreshments. <i>Possible counterbalance</i> • The summer weather of 2017 was poor so although attendances may have fallen revenue increased because prices for tickets could have increased. This may have increased revenue as demand is relatively price inelastic in markets such as live shows to see popular artists like Ed Sheeran. NB: Supply and demand diagram should be drawn like the one below. No use of supply and demand diagram (QS3) limits mark awarded to L3-6	(8)



NB The arrow can be taken as an alternative to D₁ to D₂ (either indicate positive shift in demand)

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Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1 (b)	Knowledge 2, Application 2, Analysis 3, Evaluation 3 • Added value is the difference between the price and the total cost of the inputs needed to create a product. • It can be achieved by augmenting a core product, in this case by offering on-line booking facilities or larger luxury seats than standard seats in the auditorium. Benefits to providing value-added through luxury seating: • Enables cinemas to charge higher prices, for example to pay a premium for luxury seats, which should boost revenue and potentially profits. • It gives the cinema another source of revenue from such things as refreshments of soft drinks and chocolate. • It could improve cash-flow as on-line bookings will help to ensure that income from ticket sales is received in advance and non-refundable in the case of non-attendance. <i>Possible counterbalance</i> • Revenues may not increase from the sale of luxury seats if the Price Elasticity of Demand (PED) is price elastic. Furthermore, profits may not necessarily increase in the short run because the purchase and installation costs will need to be paid. • Some customers may not be too concerned about the seating, but rather be influenced by the film on offer or other sources of value added such as the availability of hot food or confectionery <i>Possible judgement</i> • Adding value through luxury seating adds to the cinema visitor experience. Without which some customers may simply prefer to stay at home on their comfy sofas and access a movie through OTT. • For new blockbuster movies the cinema will always attract customers so the added-value extra of luxury seats will not be needed as the film is only available to watch at the cinema.	(10)

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Level 4	7–10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1 (c)	Knowledge 2, Application 2, Analysis 4, Evaluation 4 Marks for application and analysis include up to 2 marks for quantitative skills Quantitative skills assessed: QS8: use and interpret quantitative and non-quantitative information in order to make decisions QS9: interpret, apply and analyse information in written, graphical and numerical forms - Markets are saturated when the potential number of new customers is zero. - So the only way to gain new customers is to move to new markets, such as export markets. For US-based Netflix, this includes the UK and Europe (It is a push-factor). Significance of: - This should open up more revenue streams from subscribers in countries like the UK (almost 10 million extra subscribers over and above the US market) part of the 130 million users in 190 countries. - Over the period 2018-22 should provide Netflix with a share of £2bn in extra revenue from the UK alone. - The market is expected to expand by 7.4% year-on-year between 2018-22 compared to traditional video (falling by 1.7%) which may be able to help make up for lower growth rates in the US. <i>Potential counterbalance</i> - Netflix home market is the US, which has a population in excess of 300m people. In order to compensate for a saturated home market in OTT, exporting to countries like the UK may not prove that significant with only 10 million subscribers. - Other conditions may have prompted the international trade (Netflix exporting to the UK) for example competition in the home market by companies such as Amazon. - Netflix international trade may have been prompted by an efficiency drive. Exporting to markets like the UK should increase output which may mean that Netflix could benefit from technical economies of scale (pull factor). - Other factors may be significant to the decision, e.g. extending the product life cycle of OTT as AI developments, for example, may help create an alternative.	

	<i>Possible judgement</i> • In dynamic, highly technological markets like OTT it may be crucial to ensure that to survive that businesses like Netflix spread risks by seeking new customers in new markets. • Consumer tastes and preferences in markets like OTT need to be met in the US as this market probably accounts for the majority of Netflix revenue. Seeking markets overseas may not ensure survival as much as product development to maintain domestic sales.	(12)
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Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide-ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1 (d)	Knowledge 4, Application 4, Analysis 6, Evaluation 6 Marks for application and analysis include up to 4 marks for quantitative skills Quantitative skills assessed: QS8: use and interpret quantitative and non-quantitative information in order to make decisions QS9: interpret, apply and analyse information in written, graphical and numerical forms • A rival is a strong competitor; a business which offers the same product in the same market. Join forces • Strength in numbers and size which might confer economies of scale, helping to reduce average costs and so enable cheaper subscriptions to customers than Netflix. • Strength in numbers and size which might mean the pooling of resources, technology and know-how which can be quite critical in markets that are dynamic and costly to operate within, given the rate and expense of technological change. • ITV and BBC already have BritBox in the US which could provide a template for success of joint venture in the UK. • Could be expensive to set up so by sharing the costs, more likely to create a viable rival to Netflix and Amazon. • ITV, Channel 4 and BBC have a reputation for and experience of providing popular 'must have' content/programmes, so the demand would be there already. Stand alone • Strategically it might not be effective to combine with other PSB's given the failure to launch Kangaroo in 2007 which was blocked by the CMA, an evidence-based corporate influence. • Ownership and objectives of the PSB's are different (BBC publically owned with welfare maximisation – including education - as its key purpose; ITV seeking profits for shareholders so would offer more blockbuster type films to encourage more subscribers) which may lead to organisational culture clashes and therefore diminishing returns/diseconomies.	

- Longer term survival more likely as OTT video is expected to grow in terms of revenue by 7.4% (compared to a fall of 1.7% of traditional home TV and video over the same period).

Possible recommendation

- Joint venture might give the capacity and finance required to fund associated VR developments which is expanding more significantly at 34.5% (Extract B) to ensure long term survival.
- If ITV go it alone, they are more likely to be able to fund any technological enhancements given the option of extending share ownership or issuing more share capital. BBC's ability to increase the licence fee to support any need to raise funds less likely given potential public outcry.

Examples of possible 'MOPS' recommendations

Market – The OTT market is increasingly highly competitive and therefore faced with competition from companies like Amazon and Netflix, by having strength in numbers, ITV might be more able to take advantage of economies of scale and so reduce its average costs to make it more competitive.

Objectives – Maximising revenues and minimising costs determine profitability, which is more important to commercial PSB's like Channel 4 and ITV. Therefore, by standing alone, the ability to keep production costs down and revenues from such things as advertising –still increasing at 8.9% (Extract D) should give ITV the opportunity to increase profits and provide investment funds.

Product – OTT is an expensive service to provide, Netflix has liabilities of more than \$30bn. Annual revenues do not cover this. So being highly geared can add to costs because of dividend and high interest payments. This may be mitigated through more advertising revenues from ITV's commercial operations.

Situation – Internet advertising is predicted to be worth much more than TV advertising in 2020 (£15,170m compared to £325m) so revenues may not be sufficient to cover costs and enable survival in a techno costly dynamic market.

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Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/ effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are developed. Quantitative and qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).

Question Number	Indicative content	Mark
2 (a)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 • Liquidity refers to day-to-day cash-flow. Ways: • For Derby Theatre this might increase cash in-flows by discounting performance tickets which, assuming that price elasticity of demand is high, should increase revenues. • Increasing other sources of revenue, such as offering more advertising space in performance programmes or increasing the amount of sponsorships/offering loyalty or membership schemes which should increase regular revenues. • Reducing regular costs such as wages of staff by making use of zero-hours contracts for catering staff which would reduce cash-outflows. <i>Possible counterbalance</i> • Given competition from the Derby Live Arena there may be a 'price war' or rival promotions such as 'buy one ticket get one free' which could cause cash-inflows to fall as ticket sales at Derby Theatre fall. • Too much advertising in performance programmes may cause a trade off in terms of cast information or performance editorials which might put audiences off buying programmes so programme sales might fall.	(8)

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Question Number	Indicative content	Mark
2 (b)	Knowledge 2, Application 2, Analysis 3, Evaluation 3 • Succession planning is a human resourcing process for identifying and developing new leaders who can replace old leaders when they leave, retire or die. For succession planning at Derby Theatre: • Derby Theatre is labour intensive and a source of culture, the survival of which may depend on stable relationships between people, like actors, producers and directors. • It would be an effective way to nurture and retain talent as staff would feel a sense of belonging and value opportunities for self-actualisation within the theatre, such as technical staff. • Settling in new staff to new ways can lead to a loss of productivity because of mentoring from existing staff such, as the Head of Marketing and poor adjustment by new staff, such as a new House Manager to replace Kat Richardson. <i>Potential counterbalance</i> • It may not be possible to identify or develop existing people within Derby Theatre as some of the roles may be too specific and require hands-on experience, such as Creative Learning Director. So, vacancies may be better filled by people from outside the business, through national advertisements in newspapers like the Guardian. • Appointing new leaders from outside Derby Theatre, such as a Senior Producer, may bring with it fresh and innovative ideas which could help to attract new audiences and so boost revenues. <i>Possible judgement</i> • Some departments and positions lend themselves naturally to succession planning, e.g. Technical, given that knowledge of Derby Theatre's stage lighting is quite specific. • Succession planning involves associated costs like training (time off, course fees) which a small theatre like Derby Theatre with just 50 full-time staff might not be able to afford or find practical to offer, especially to freelance workers.	(10)

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Question Number	Indicative content	Mark
2 (c)	Knowledge 2, Application 2, Analysis 4, Evaluation 4 Marks for application and analysis include up to 2 marks for quantitative skills Quantitative skills assessed: QS8: use and interpret quantitative and non-quantitative information in order to make decisions QS9: interpret, apply and analyse information in written, graphical and numerical forms • Cultural diversity in business is appreciating the differences in individuals for the purpose of staffing and gaining customers. Differences are based on gender, age, sex, ethnicity, sexual orientation, and social status. Of value to Derby Theatre because: • The Theatre has a moral responsibility ("civic mindedness") as an art, to employ people from different genders and backgrounds to reflect society and the local community. • The 'white, other' (Eastern European decent) population of Derby is predictably increasing from 3% in 2011 to 4.2% in 2016; Derby had a greater proportion of BME people than the UK in 2011 – only 75% white, British compared to the UK's 80%, so could support staffing recruitment or lead to bigger audiences. • Ensure that the Arts Council funding of £795,000 continues for DT or even expands given its criteria which encourage diverse programming. <i>Possible counter-balance:</i> • Diverse productions may prove more expensive to stage and produce given the possible need to expand the costume wardrobe, props, appropriate actors, different menus at the café. • May not attract large audiences given that the shows may appeal only to ethnic minorities which could reduce revenues from ticket sales and programmes, etc.	

	<i>Possible judgement</i> • Legislation may make it compulsory, e.g. Equality Act encourages 'colour blind' casting for the film and entertainment industry. So, adherence may prevent bad publicity and legal costs. • Survival of a theatre which has already nearly closed and required a takeover by the University of Derby to survive, may need to produce and stage shows that draw in big audiences nearer capacity of 575 with big bar and catering spends nearer £3.50 per head which you may not get with 'minority' productions.	(12)
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Question Number	Indicative content	Mark
2 (d)	Knowledge 4, Application 4, Analysis 6, Evaluation 6 Marks for application and analysis include up to 2 marks for quantitative skills Quantitative skills assessed: QS8: use and interpret quantitative and non-quantitative information in order to make decisions QS9: interpret, apply and analyse information in written, graphical and numerical forms • Retained surpluses/profits are an internal source/method; total revenues minus total costs, kept in the business rather than paid out to shareholders as a dividend. It is widely regarded as the long-term source of finance for a business to invest and expand. • A loan from a private investor is an external source/method; amount of money usually repayable after a fixed term of more than 12 months. Retained profits/surpluses • No interest payable, so cheaper to use than loans. • Less likely to involve any conditions and/or incur any external constraints, such as a lender having a say in how Derby Theatre operates. • Retains the arts "civic mindedness" of all staff employed at Derby Theatre. • No fear of loss of collateral which may be attached to any loan. • A detailed business plan with cash-flow projections may need to be prepared for the lender to show that future loan repayments can be made. • Loans may conflict with the Arts Council grants conditions and so affect the amount of grant which they award. Loan from private investor • Large amounts of money may be made available, exceeding £120,000 max. • The cost of investment in the café and kitchen might spiral. Waiting for retained profit to accumulate can mean losing potentially profitable business opportunities. • Private investor may offer expertise as part of arrangement which could help ensure longer term survival of catering facilities. • Once repaid Derby Theatre retains ownership and control. • Interest is usually fixed, so if the café does well then loan repayments will be more manageable. • The use of retained profits incurs opportunity costs for Derby Theatre, e.g. the money might have been used for new lighting or staging.	

Possible recommendations

- Choice of finance depends very much on the nature of the lender and repayment conditions. If a lender attaches high interest and short repayment periods, then the private loan option may prove too costly and impractical. Not a wise option for a theatre that has already been bailed out by a takeover from the University of Derby in 2012.
- The loan may come private investor who has an interest in theatre and who may offer expertise as part of arrangement which could help ensure longer term survival of catering facilities and therefore the Theatre.

Examples of possible 'MOPS' recommendations

Market - The live entertainment market in Derby is highly competitive, (Guildhall and Derby Live Arena) so a private loan, coupled with expertise from the lender, could help differentiate Derby Theatre from its rivals/competitors.

Objectives – Could cause the Theatre to seek profit maximisation as its main objectives, which might detract from its core purpose.

Product – Arts productions are increasingly expensive to stage given customer expectations, e.g. laser lighting, authentic costumes, which may not be affordable through retained profits/surpluses.

Situation - Choice of finance depends very much on the economic climate. If the demand for arts is increasing, then a lender is more likely to lend and offer longer repayment terms.

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