

Examiners' Report

June 2018

IAL Business Studies 3 WBS03 01

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Introduction

This examination paper followed the style, format and structure established in the published sample assessment material and previous live papers, with the same Assessment Objective (AO) and Mark Band (MB) weightings.

Examiner reports are a valuable resource for helping prepare candidates for external assessment, as they contain lots of general advice that is still relevant and likely to be useful for staff and candidates in preparation for future papers.

This report should be read together with the examination paper and the mark scheme for this paper. My own observations, supported by reports from all examiners who worked on this paper, will sometimes repeat problems or advice that have been raised in reports on other papers. However, any repetition is because these issues continue to reappear in responses and have not been resolved or even show signs of improvement.

By June 2018 some candidates will have completed the full, two-year course of study, starting in September 2016; others will have started their work on this unit in September 2017.

For support, candidates may have used sample assessment material, plus the past papers, mark scheme, and reports from previous series.

As outlined in the Specification: 'These International Advanced Level qualifications in Business Studies require candidates to:

- investigate different types of businesses that develop and sell products and/or services in a local, national or international marketplace. At IA2 level, candidates will study the ways in which companies make decisions, and grow and operate in the global market place
- be able to analyse numerical information and understand how it assists the decision making process of a business
- understand how a business is managed, how its performance is analysed and how it could trade internationally.'

Specifically: 'this unit (Unit 3) develops the content of Unit 2, which is designated at IA2 standard.' This sets the standard required for this unit, but it was evident from some of the responses, that some candidates were not fully prepared, showing gaps in knowledge of specific business terms, a tendency for generalisation, using a rehearsed formulaic approach to response questions, plus a lack of application in some of the responses, and little depth of assessment or evaluation.

With this in mind, teachers need to remember this is a Business Studies paper – it is not within the Economics specification, and although it may help some candidates to be familiar with the principles of economics, it would serve them better to be more aware of the world of business and how businesses work in practice.

The June 2018 paper was based on Henkel, an international business organisation that sells in both consumer and industrial sectors. It has three main business divisions Laundry and Home Care, with brands including Persil, Beauty Care, with brands including Schwarzkopf, and Adhesive Technologies, with brands including Loctite. Employing around 50,000 people globally, in 2015, Henkel generated sales revenue of €18.1bn.

Although focused on one particular organisation, evidence was provided to candidates which

outlined the business, its background, history and more recent developments which affected how it was run; as such, this case study does not appear to have caused any problems for candidates.

All questions should have been accessible to candidates of all grades, and, in practice, most candidates attempted all questions.

Question 1 (a)

Despite the apparent simplicity of questions 1(a) and 1(b), some candidates gave vague generalisations rather than the more precise, knowledge-based answers which are expected at this level.

The general concept of organic growth appeared to be well known, but many answers were low level, simplistic definitions. Some answers come from the counterfactual, e.g. '...organic growth means that the business does not use takeovers or mergers to grow...', this was considered to be an acceptable way of answering this question.

Most candidates gave a definition similar to that in the mark scheme, often supported by good examples.

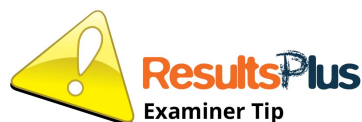
1 (a) What is meant by the term organic growth? (Evidence D, line 14)

(2)

Organic growth refers to a business growing by itself using its own funds such as by opening up new stores, without merging with, taking over or acquiring other businesses.



Most candidates gave a definition similar to that in the mark scheme, often supported by good examples, as shown in this answer, to score 2 marks.



Encourage candidates, when asked for a definition, to give precise, knowledge-based answers, as shown in example, rather than vague generalisations, and to avoid 'mirror' answers e.g. '...organic growth means to grow organically...', which would not attract any marks.

Question 1 (b)

Asked what is meant by the term strategy?

This question produced many vague generalisations, most linked to some form of planning. However, many answers missed the point that a strategy is based on a long-term goal; to get the full 2 marks the answer would need to include a reference to a strategy being a long-term feature of management - consequently many answers could only score 1 mark, no matter how much was written about planning. Some answers referred to a strategy being '...long term/short term...' - thus asking the marker to choose, to make a decision on behalf of the candidate; as such this element of the answer could not be given a mark as the candidate must be definite statement within their answer.

(b) What is meant by the term strategy? (Evidence D, line 15)

(2)

Strategy refers to the ~~business~~ plan of action devised by the business to achieve its corporate objectives and aims in the long term.



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A brief but concise answer like this shows an appropriate level of knowledge, and was given the full 2 marks.

Question 2

The stem of this question highlighted that 'Ambition for 2020' (Evidence D) outlined a number of strategies for Henkel. Candidates were then asked to explain how contingency planning could be used by Henkel to reduce the risks of following these strategies.

The question, and marks given, relate directly to how contingency planning could be used by Henkel to reduce the risks associated with the strategies given in Evidence D, i.e. context and application is required.

As we have seen in previous papers, most answers to Q2 tend to start with a generic definition - candidates are evidently missing the point, or have been misdirected by teachers, that there are no marks for definition in this question. This has been highlighted in all previous examiners' reports.

Answers should start to go beyond the generic knowledge, and explain how contingency planning could be used by Henkel to reduce the risks of following strategies outlined in the given evidence, rather than being a generic description of contingency planning.

2 'Ambition for 2020' outlines a number of strategies for Henkel. (Evidence D)

Explain how contingency planning could be used by Henkel to reduce the risks of following these strategies.

Contingency planning refers to a businesses backup plan in case of uncontrollable factors affecting the business negatively. One example may be external shocks meaning the business is unable to meet demand.

One strategy for Henkel is to become 'more innovative' according to evidence D - innovation may require large costs in research and development and may not have the funds to support a new product if it fails - Henkel may use contingency finance in order to fund the product if too costly for the business to avoid bankruptcy.

Another strategy Henkel uses is to 'digitalize internal processes / customer support' - Henkel may ~~have~~ use contingency planning, having backup servers elsewhere in case of external shocks ^(flooding) or power cuts so that digital systems stay online and the business can still function.



Although this answer starts with a generic definition, no marks, it shows knowledge in the second sentence and towards the end of the answer, 2 marks; there is application in the middle, 2 marks, with some limited analysis at the end, 1 mark, bringing the total mark to 5.

Question 3

Candidates were asked to analyse how Henkel might have used SWOT analysis when drawing up its future plans. Evidence B, D and E were provided as an outline of Henkel's future plans.

As with Q2, most answers to Q3 started with a generic definition - there are no marks for definition in this question. Marks rely on the candidate applying their knowledge of SWOT to Henkel, as identified from given evidence. Some candidates did not answer the question, just producing a page of words describing SWOT per se - is not what was asked for, consequently no marks.

3 Evidences B, D and E outline Henkel's future plans.

Analyse how Henkel might have used SWOT analysis when drawing up its future plans.

SWOT analysis is a decision-making tool, which includes analysing the business's internal strengths and weakness as well as business's external opportunities and threats.

Henkel could have identified their strong performance culture in their functioning as a strength, which could be used to grab opportunities in the ever-growing/changing market profitability. As their employees are well motivated and empowered, it allows them adapt to the market, hence their future plans state that they plan to improve gross profit margin. Therefore, considering their strengths would help Henkel list out their future plans.

As mentioned in Evidence E, that Henkel operates in a highly volatile and dynamic markets, this could have been classified as a threat to Henkel and possibly because of lack of market share, which could be their weakness. Hence, leading Henkel to decide on adding growth as takeovers to strengthen existing product portfolio, as this would not only eliminate their weakness of low market share but also make them immune from threats of the market as they will possess number of different brands, hence gaining from risk bearing economies of scale. Therefore, analysing the threats faced due to their weakness could help Henkel draw up their future plans accurately.



This answer shows knowledge and application, together with a good analysis, of the consequences, for Henkel, of using a SWOT analysis when drawing up its future plans, and was given full marks.



Read the answer back and confirm that it does, in fact, apply to the question being asked.

Question 4

Evidence E gave information about the corporate culture that Henkel wanted to establish. Candidates were asked to assess the likely impact of this corporate culture on Henkel's employees.

The focus of this question was on how Henkel's employees would be affected - this was overlooked by less able candidates who concentrated on providing generic descriptions of various forms of corporate culture - not answering the question; this limited the potential for marks. Less able responses often adding a cursory 'However...' without really answering the question, just jumping straight to what the candidate considered to be evaluation of corporate culture.

It was noted that another tendency was for some candidates to base their answer on the effect of various forms of corporate culture, often citing Charles Handy, on the business itself - again, this is not what the question asked - the focus should have been on the effect on employees.

Both of these negative examples highlight the fact that whilst most candidates may have knowledge of what corporate culture is, many found it difficult to apply their knowledge to the situation at Henkel, and apply this to the employees themselves.

At this level, the analysis of the corporate culture at Henkel should go beyond generic definition, and should actually be applied to the business - based on the evidence provided.

The strongest responses managed to achieve this, but many less able responses were stuck just describing, often in great detail, the pros and cons of different styles of corporate culture on the business.

4 Evidence E gives information about the corporate culture that *Henkel* wants to establish.

Assess the likely impact of this corporate culture on Henkel's employees.

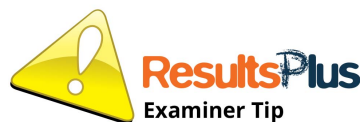
(10)

A corporate culture is the general attitudes, behaviours and beliefs of the business that influence how it is run and how decisions are made. Henkel is trying to establish a task culture through its desire to create 'empowered teams'; this type of culture is highly motivating for employees, motivation which may be sustained by Henkel's promise to 'enlarge employees' decision-making authority'. By giving employees more decision making power it will make their jobs more interesting and enriching, making it more likely that they will continue to work there for many years, reducing labour turnover. This type of atmosphere may work in Henkel's favor by improving its customer service as employees will be happy with their jobs. Henkel's employees are also likely to come out of this multi-skilled as Henkel wants to 'encourage adaptability' and 'promote acceptance... of change in the workplace' so employees may have the chance to try many different roles to enhance their skillset. However Henkel employs around 50,000 people globally, and it is a very old established business so the imposition of this new culture may stir up resistance and fear in employees causing them to be less productive. Also, ~~the~~ Henkel's promises to change the culture could all be a PR

bit which could significantly mar employer-employee relations. Lastly, the 'strong performance culture' Henkel aims to create could encourage unhealthy competition among employees actually worsening the culture. However if Henkel handles the change with grace, genuinity and good communication the new culture will improve employees worky lives exponentially.



No matter how well written, generic answers could only be given marks limited to the level below that which they would have achieved had the answers been in context. This clip shows an answer which was placed into Level 4 by virtue of the applied counter argument which can be seen from the end of the first page, and onto the second page.



To move marks up to Level 3 and into Level 4, answers must be in context, applied to the business and evidence provided.

Question 5

For this question candidates were asked to assess the extent to which stakeholder groups in Henkel share common aims.

Answers from less able candidates tended to be very generic, pages of description of different stakeholders - there was also some evidence of confusion between stakeholders and shareholders.

To score well in this question, answers needed to go beyond a description of different stakeholders, and actually answer the question - the extent to which stakeholder groups in Henkel share common aims, do this and the marks could be moved from Level 1 or Level 2, just 1 to 4 marks, through Level 3 and into Level 4, up to the full 12 marks.

5 Assess the extent to which stakeholder groups in *Henkel* share common aims.

(12)

A stakeholder is any individual or collective that has an interest in business operations as they affect them or are affected by them. A differing in interests may lead to conflicts. As evidence C show, *Henkel* has a stakeholder approach, which means that they ~~may~~ try to please every stakeholder group.

Henkel aims to be sustainable with the environment, which would be a common aim with the director, as it brings new customers and a point of differentiation which would help to increase prices and revenue. It also may coincide with the employees, who have an aim to continue their jobs and be well paid. This could attract better employees who feel motivated by working in a socially responsible business. Moreover, customers may also be attracted. Their aim is to buy value for price, and with the innovations of employee teams and sustainability, it would add quality to the products and maybe design, which would lead to ~~higher~~ their willingness to buy higher prices and therefore more ~~money~~ profit for directors, workers and projects. Also, employee teams would boost their productivity and be beneficial for their social needs, as well as for the owners and customers, as the ideas are launched early and therefore led to less absenteeism and ~~as~~ competitive advantage in sales and price.

However, the ~~same~~ interests of directors may clash with those of the local community, who hope an environmentally friendly business,

The director at Henkel, as shown in evidence D looks for takeovers and mergers, ~~which~~ and a stronger product portfolio, which may ~~lead to~~ be easier if the business took non-environmentally friendly decisions. So there may be conflict there, as some money ~~that~~ that could be used in new projects may go to the local community and therefore create conflict with directors and owners. Moreover, the directors decisions such as merging with other business may lead to redundancies, as Henkel may not need the double of the workforce, and result in conflict and alienation of the employees. culture clashes may also be possible, again, leading to their demotivation.



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Examiner Comments

This is an example of an answer which shows knowledge, understanding, analysis and evaluation in context, placing it in Level 4, where it was given 10 marks. To score the full 12 marks the answer would have needed to be more focused and to give more arguments, developing several strands, leading to a clear and convincing conclusion as to the extent to which stakeholders in Henkel share common aims, balancing a positive answer by identifying the problems associated with stakeholders sharing common aims.

Question 6

This is an essay length question, marked on levels.

Section B on the question paper provided candidates with a new set of evidence: Evidence F and Evidence G outlined Henkel's strategic priorities for the future, and its recent takeover; Evidence H provided candidates with financial data for the years 2011 and 2015.

Question 6 simply asked candidates to evaluate the likely implications for Henkel of the financial results given in Evidence H, using appropriate calculations to support their evaluation.

This question produced some good examples of application, i.e. most candidates seem to be able to do calculations accurately, although it is disappointing to report that few sets of calculations were labelled correctly (if at all) and figures were often presented with too many decimal places to be useful. Some candidates seemed able to churn out figures, many spurious, but did not indicate what the figures actually meant.

Some candidates tried to answer this question without doing any calculation (although calculation is asked for explicitly in the question) trying to describe Henkel's financial position using words rather than figures.

6 Evidence H shows the financial performance of three selected business divisions and Henkel's overall performance, 2011 to 2015.

Using appropriate calculations, evaluate the likely implications for Henkel of these results.

(20)

Financial performance involves analyses of the company's profitability ^{margins} ratios, liquidity ratios and gearing ratios. It also involves analysing how a business has performed in monetary terms over a given period of time. For instance calculating, operating profit margin $= \frac{\text{operating profit}}{\text{sales revenue}} \times 100$

Laundry & Homecare division shows an operating profit margin of $\frac{419}{4304} \times 100 = 9.74\%$ in 2011 and $\frac{786}{5137} \times 100 = 15.30\%$ in 2015, which is a massive increase of 5.56% from previous financial data. This may have been achieved due to an increase of 87.59% increase in the ^{operating} profit ~~sales~~ over 4 years. This success could be well evaluated and used to guide their other division to the road of profitability. However, other key information such as cost of sales and expenses is missing, ~~therefore~~ making it difficult to actually evaluate the performance completely.

Beauty care division shows an operating profit margin of $\frac{471}{3399} \times 100 = 13.86\%$ in 2011 and $\frac{561}{3833} \times 100 = 14.64\%$, which ~~is~~ not a huge increase but still a positive one. After analysing further information such as the beauty care market and economic climate, it would allow Henkel to provide a better judgement whether ~~they~~ the division has done exceptionally well or not. For instance, if the market was becoming very competitive and hard to operate in, despite that the division make higher margins, the shareholders may be well pleased.

Adhesive Technologies division made an operating profit margin of $\frac{1002}{7741} \times 100 = 12.94\%$ in 2011 and a $\frac{1462}{8992} \times 100 = 16.26\%$ in 2015, which again is a relatively steady increase and could be well represented due to a huge increase in ^{sales} revenue for this division of 16.09%, suggesting a good management of this division, as their sales have relatively increased overtime. However, the financial data between the years 2011-2015 remains missing, which may seem higher margins for division in years such as 2013 and the margins in 2015 could be stated as a downgrade, therefore having more historical data would definitely help analyse the performance more accurately.

Finally, the overall operating profit margin of all divisions combined in 2011 was $\frac{1765}{15605} \times 100 = 11.31\%$, whereas the same margin for 2015 was $\frac{2645}{18590} \times 100 = 14.22\%$, which is an increase of 3.31% from the previous available financial period. This may be considered a healthy increase considering the variety and dynamic markets the company operates in. ~~Managing~~ Their sales revenue increased by 15.92% and operating profit by 49.86%, which could please both the managers as well as shareholders of Krentel as they would expect higher dividends for their shares. However, it would be vital to compare their financial data with their competition or the benchmark figures of the markets they operate in, to actually determine the scale of their success, as they may have experienced an increase well below the market average making them competitive.

Although the 3 divisions' financial performance may have been positive and contributed a total €17962 million towards the overall sales revenue of the company, which is about 99.8% of the all revenue earned by them, there will may be other qualitative data such as the motivation of employees and

brand reputation to consider, as they may be a key determining factor on how the company performs in the markets. These figures also do not guarantee future success as they operate in a dynamic market hence other performances such as their liquidity ratios must also be analysed thoroughly. An increase of 331% in between 4 years may be a small figure taking in consideration the inflation rates, and be of huge concern to the management of Hentel to plan to raise these numbers drastically, which to be fair, they have responded by planning many takeovers in 2016, all which will contribute to the increment in their profit margins and make them more competitive.

As a whole, just looking at the figures provided, the management may be pleased with their growth financially and could expect to maintain the steady increase but must take in consideration other ~~the~~ external factors to make any further judgement about these figures.



This is a good example of a high scoring answer. It includes calculations, as required, a good level of analysis of what the figures mean, plus strong evaluation, outlining the limitations on placing too much reliance on a limited set of financial data. This answer was just lacking a final conclusion, or it could have been given full marks.



To aid understanding, it is important to label the figure used in all calculations so that the reader can identify where the information comes from. It is particularly important to label the product of all calculations, which may be percentages (%), financial units (£, \$, as appropriate), units of output, e.g. boxes, tonnes, etc. It is also helpful to limit the number of decimal places shown, one is helpful, two can show detail, beyond that decimal places have limited use for general management.

Question 7

Essay length question, marked on levels.

Details of Henkel's takeover strategy, and its recent takeovers, were given in Evidence F and G.

In general, candidates showed a good understanding of takeovers, positives and negatives for a business, but general knowledge resulted in many generic answers, just textbook descriptions without reference or application to Henkel.

As a consequence, there were a lot of answers that were wordy, but not very insightful, i.e. basic knowledge, lots of description of takeovers and rewriting the evidence with little analysis.

Assessment of the benefits to Henkel of growing by using a strategy of takeovers needed to be realistic and in context, rather than being generic descriptions, or a simple rewrite of the evidence.

Evaluation, Level 4 answers, came from identifying that, despite the superficial attraction of takeovers, there could be some downsides for the business.

7 Assess the benefits to Henkel of growing by using a strategy of takeovers.

(20)

Takeovers are form of inorganic growth, which involves purchasing either the whole operations of another company or purchasing over 51% shares of another company. For instance, Kraft ~~later~~ buying out Cadbury's operations.

Henkel wants to expand into new markets as part of its strategic focus, hence taking over a rival such as other leading hair care brands such as Afta allow them to expand quickly into new markets such as Russia. This quick growth allows them to spread their risks over range of markets, fully exploiting the risk-bearing economies of scale. It also allows them to expand into new markets without any market research as the company taken over may possess the knowledge about the market saving them huge costs. However, the companies taken over such as taking over ~~Shanghai~~ ^{Shanghai} in Saudi Arabia, may operate with differently with their unique corporate culture, and may not be as successful under Henkel's leadership, leading to a takeover failure and huge losses ~~to~~ to Henkel. There may also be cultural clashes as the taken over company may not possibly like to work under the culture of Henkel.

Expanding into ~~renewing~~ ^{mature} markets is also considered a key strategic priority, hence ~~take over~~ ^{takeover} allows them to buy out companies in these markets such as Sun in USA. This also allows them to ~~operating~~ ^{operate} in the market smoothly as they could make use of resources and their distribution channels to further expand their sales and base. This ensures them to take full benefit of mature markets using established brands with established brand reputation in the market. However, Takeovers are expensive and require huge amounts

of funds to successfully achieve one, which could have been invested in research and development, and allowing them to expand organically and steadily ~~without~~ raising their own brand reputation. Although, huge funds don't seem a problem as they plan to increase their capital expenditure by €1 bn in coming years, but this does increase their gearing and payments to investors, which may take a toll on the company in long-run through huge repayments, hence ~~therefore~~ outweighing its benefits.

Takeover could also allow Henkel to meet its aim of strengthening its position in the marketplace, as taking over ^{many} competitors in the Laundry & Home care market, allows them to increase their ~~market~~ ^{overall} market share and hence strengthening its market power. This could lead to a bigger customer base to serve to for Henkel, which would in-turn increase their sales and profits overtime. However, the growth may be too quick for the management as they may not be able to deal with sudden increase in management of companies, leading to ~~managerial~~ ^{communication} diseconomies of scale, as the managers will not be able to communicate efficiently with ~~large~~ ever-growing organisation.

Henkel also wants to build its product portfolio and hence taking over companies in the adhesive business allows them to have more ^{diverse} brands in their portfolio, which again helps them benefit from risk bearing economies of scale, as one brand in the portfolio fails, they would have other brands to fall back on. Reducing risks and increasing security of investment of their shareholders. However, the management may lack the expertise to deal with various different brands and markets, leading to poor management and could possibly cause

huge losses to Mentel and its shareholders. It may also lose its focus of its core competence as it focuses more on takeover, leading to loss in ~~its~~ existing employees.

since, Mentel plans on expanding organically as well as inorganically, it allows them to enjoy the benefits of takeovers more as they will always have their strategies of organic growth to fall on. Takeover would also help them survive in the dynamic market as with various brands, it becomes easier for them to adapt to various trends and obstacles.



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Examiner Comments

This answer is an example of a strong, Level 4 answer; after an introduction, each paragraph includes analysis and evaluation that is in context. To have scored full marks it would still need a final conclusion to pull the arguments together.

Paper Summary

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

- Preparedness

Some candidates were not fully prepared, showing gaps in knowledge of specific business terms, a tendency for generalisation, using a rehearsed formulaic approach to answer questions, plus a lack of application in some of the responses, and little depth of assessment or evaluation.

However, in contrast, it has become obvious that some candidates are being over prepared, trained, in the process of answering questions on this paper. Many answers are laid out in a format that matches the mark scheme, i.e. being split into distinct sections to cover knowledge, application, analysis and evaluation - this can be seen clearly by the regular use of 'however...' or 'in conclusion...' to signal to the marker that the answer was about to present some 'evaluation'. This is certainly one approach, but it is the candidate's business knowledge, application, analysis and evaluation that we are looking for - not their ability to lay out an answer in a given format.

- Rewriting question and copying given evidence

Whilst it would appear that some candidates find it a good way to lead their thoughts into an answer, candidates should be reminded that simply rewriting a question is not usually sufficient to gain marks.

Rewriting the question or information given in the evidence will not produce marks unless it is being used in context, to support a statement being made in the answer. The question asked needs to be answered.

- Not answering question

Some candidates pick a word or topic from within the question, and then write all they know about that particular word or topic, rather than answering the question asked.

This could be a way of demonstrating knowledge of general business terminology, but candidates need to understand that marks are only given for an answer that addresses the specific question asked.

Candidates need to focus on the question asked, and answer it, rather than just writing about something referred to in the question which they may know about.

Linked to this is a tendency for less able candidates to throw into their answer general expressions such as '...increase profit...', '...grow market share...', '...sell more...' etc.

Again, candidates should be made aware that such general terms are unlikely to result in marks unless they are related directly to an answer to the question asked.

Just writing '...which means or which will lead...to more sales and more profit...' at the end of an answer will not lead to more marks.

- Overwriting

Quantity does not necessarily equate to quality nor to higher marks.

Some candidates appear to think that if they fill the space in the answer booklet, plus several extra

pages, then they will get higher marks: this is rarely the case.

Often the sense of what the candidate is writing gets lost in the words which just fill the pages.

Markers read every word to see if there are points worthy of credit within the text, but this can be difficult if they are hidden within long general descriptions.

The space provided in the answer booklet is planned to match the marks available and consequently the amount of writing that candidates should produce: any more than this and they are usually wasting time in the examination.

As candidates move from education and into the world of business they will soon learn that a concise analysis or report is much more useful than a long and rambling piece of writing.

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>

