

Examiners' Report

June 2014

IAL Business Studies WBS01 01

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Introduction

In this second series of the new award, it was pleasing to see some progress in the exam techniques in a higher percentage of the students. However, some students still have not developed skills beyond those required for success at GCSE.

The standard of handwriting for some students made it extremely difficult to read some of the scripts in this series.

In the Supported Multi Choice section (Questions 1 - 6), most students were able to identify the correct answer most of the time. However, a significant number of students were then unable to gain further marks for fully explaining their correct choice of answer. Many simply repeated the words from the question stem in their answers. In order to support success in this section, it would be helpful if students adopted a structure that demonstrated knowledge and understanding (definition), application, in relation to the business or issue in the question and analysis, the results of any decisions, actions from the application. Whilst a significant number of marks for these multi choice questions were awarded for explaining why other distracters were wrong, there were many missed opportunities for extra marks. For example, students would often just state 'X is wrong' and then give a definition. Again, this needs to be applied in relation to the business or issue in the question. For example, X is wrong because - then explain how or why it does not apply.

In the Data Response questions, there was evidence of many students having been well taught regarding how to access the 3+3 mark scheme for Q7 and 8.

The vast majority of students attempted the standard data response questions 7, 8a and 8b with a small number of blank scripts.

A majority of students attempted questions 9a, 9b and 10. However, Q11 was not attempted by a significant number of students but it is not clear whether this was due to a difficulty in responding or if it was due to time restraints before the final question.

Question 1

Q1 (a) Most students identified that the correct answer was C (sole trader).

Q1 (b) Many students were able to give a correct definition of a sole trader. The majority of students missed the opportunity to comment on the ease and simplicity of this structure when starting up in business. There were a significant number of answers that referred to the unlimited liability of a sole trader and there were often negative connotations to this.

There were a significant number of students who stated that as this was an e-business it must be a sole trader.

When answering why distractors are incorrect, a number of students only state that 'A is incorrect' or give a generic definition, which is not enough to award any marks to. What is required is more application to the business in the question. The answer needs to be robust and state how or why it is incorrect.

There are also a large number of responses that join the distractors together in one sentence to state they are all incorrect. Again, potentially significant number of additional marks are being lost. Each distractor needs to be explained in turn as they will all have different reasons for being the incorrect answer - in relation to the business in the question.

This is an example of a good answer to a supported multi choice question. Part 1(a) is correct for 1 mark and the full 3 marks were awarded for Part 1(b). The full marks were given because the answer is applied to the business in the question and has elements of why 1(a) is correct and why one of the distractors is incorrect.

1 Hannah Craig started and owns *I am an Eskimo*, a small e-business that sells 100% cotton T-shirts.

(a) Which **one** of the following is **most likely** to be the structure of Hannah's business?

(1)

- A Partnership
- B Co-operative
- C Sole trader
- D Public limited company

Answer

C

(b) Explain why this answer is correct.

(3)

Sole-trader is a business ^{owned} ~~formed~~ and managed by one individual. In this case Hannah's e-business is a sole trader because it is a small business and also it is ~~y-own~~ owned and controlled by Hannah alone hence it is a sole trader.
Option A is incorrect because partnership is

owned and controlled by minimum of 2 and maximum of 20 people and in this case, Hannah is the only owner of e-business



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Examiner Comments

In Part 1(b), the knowledge mark was given for the definition of a sole trader because the student identified that the business is owned by one individual. Please note - the mark was not awarded for the business being managed by the owner - managers are not necessarily the owner of a business but could be employed by the owner to manage on their behalf.

The application mark was awarded because the student identified that the business was owned and controlled by Hannah alone - that statement relating the ownership of the business to Hannah was the application without that it would not have counted as application and the mark would not have been given.

The third mark was given for the explanation of why the business is not a partnership. This was well written because the student explained it could not be a partnership as this needed 2-20 people, then applied it in context by stating that the reason it could not be a partnership is because 'Hannah is the only owner of e-business'.



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Examiner Tip

The context of the business in the question is important when explaining why a distractor is wrong - marks will not be given for definitions alone. There are often correct definitions given but they cannot be given any marks as they are not applied in context.

Question 2

Q2 (a) The majority of students identified that the correct answer was A (competitive advantage).

Q2 (b) There were some very good definitions of competitive advantage for this question. Most students were able to explain how *Coca Cola's* secret recipe gave them a competitive advantage over rivals. Several students went on to discuss brand and consumer loyalty.

Once again, there were lost opportunities for additional marks with weak answers for the distractors. This followed the same as Question 1 – not fully explained or applied, joined together in one response. Some students changed the order of wording in the stem to say exactly the same things and no marks are awarded for this.

That said, there were some very good answers. It was pleasing to see that some students were able to clearly describe that the secret recipe was related to product orientation and that market mapping was about company positioning on a grid between two variables. The descriptions for Product Trials were the weakest of the distractor descriptions, often missing the reference to Coca Cola, but several students were able to gain marks.

This is quite a good example but it only just achieved three marks for part 2(b).

2 The Coca-Cola Company produces Coca-Cola using a closely guarded secret recipe.

(a) This is likely to give *The Coca-Cola Company* a

(1)

- A competitive advantage
- B market orientation
- C market map
- D test market

Answer

A

(b) Explain why this answer is correct.

(3)

Competitive advantage refers to when a business develops a particular feature or advantage that gives the firm competitors an edge over its competitors. As Coca Cola is successful as the secret recipe is guarded, it prevents competitors from producing it and so it is an edge for Coca Cola. Option B is incorrect as it is related to the way in which market research is conducted. Option C and D is incorrect as they would not be related to a secret recipe.



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Examiner Comments

The definition of competitive advantage is good for 1 knowledge mark.

Application is good because the student discusses the fact that competitors cannot produce Coca Cola because the recipe is kept secret which gives the competitive advantage to Coca Cola.

The third mark was given to the statement that C and D are incorrect because they are not related to the secret recipe. This was only just enough to be given the mark and to be more secure, the student should really explain how and why it is incorrect in the context of Coca Cola.



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Examiner Tip

Option B was not given a mark because all it said was that 'it is related to the way market research is conducted'. If the student had said that the secret recipe is related to the development of the Coca Cola drink which is an element of product orientation so it cannot be option B - that would have been a safe mark.

Question 3

Generally this question about sources of finance was not very well answered.

Q3 (a) About half the students identified that the correct answer was B (leasing).

There were significant numbers for overdraft and trade credit as suitable sources of finance for the acquisition of a new photocopier.

Q3 (b) Many students who responded correctly to part (a) were able to give good answers to support their choice. Most were able to identify that leasing gives access to an asset without spending significant sums of capital. A few students were able to identify the benefits of this type of arrangement such as replacement and upgrades.

A significant number of students thought that a £10 000 overdraft, or 30 day trade credit agreement was feasible for this sole trader business. That said, stronger students did identify that overdrafts were for small, short term cash flow issues. Just about every student who answered this distractor agreed that debentures were not feasible for a business that was not a public limited company.

It should be noted that a number of students described Hire Purchase rather than Leasing agreements. Students need to be reminded that only in a Hire Purchase agreement can ownership pass over once the last penny has been paid. In leasing agreements, a business will only ever be renting the asset.

This example is typical of many of the responses given to this question.

3 Angela Dawson owns and runs *The Admin Doctor*. She needs a new photocopier costing £10 000.

(a) Which **one** of the following would be the most appropriate source of finance? (1)

- A Overdraft
- B Leasing
- C Debenture X
- D Trade credit

Answer

(b) Explain why this answer is correct. (3)

Leasing means the rental borrow of machinery with a fixed amount of repayment.

B would be the ~~best~~ most appropriate source of finance since there will be a lower cost on leasing the new photocopier.

C is not the correct answer because debenture ~~takes~~ a long ~~time~~ ~~to~~ finance which is not appropriate ^{to} for expenses like photocopier.



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Examiner Comments

Part (a) was answered correctly for leasing the photocopier for 1 mark.

In part (b) 1 mark was given for the correct definition of leasing - rental of an asset for a fixed amount of payment.

The next comment was not applied in context. There was only a statement that [leasing] is appropriate because it is a lower cost. There is no development of this statement. Lower cost than what? How is that relevant to the question? If the statement had been developed to state, for example, this would be a lower cost option than paying the full £10 000 up front - that would have achieved the application mark.

There was no mark given for the explanation of why C is wrong. This is because the student states C is not appropriate because debentures are a long term financial option. In actual fact, debentures are not available to the Admin Doctor because it is not a limited company. This is apparent in the question because the business is not presented as The Admin Doctor Ltd.



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Examiner Tip

Many students miss picking up marks because they do not read the stem or the question fully. There are many clues to the correct answer that can be picked up by carefully reading the business name to identify what kind of business structure it has.

Question 4

On the whole this question was well answered. This was a fairly straightforward calculation of a profit margin.

Q4 (a) The vast majority of students identified that the correct answer was A (Profit for the Year margin of 5.47%).

Q4 (b) The majority of students were able to use the financial statement given to calculate Tesco Group's Profit for the Year Margin. A few students made some basic errors, for example, in calculating the Gross Profit margin or the actual Profit for the Year amount. However, most of them did complete their calculations correctly.

This example shows how it is possible to pick up marks in part (b) even when part (a) is answered incorrectly.

- 4 In February 2013, *Tesco Group*, a multinational retailer, reported the following annual results.

	£m	£m
Revenue	64 826	
Cost of sales	60 737	
Gross profit		4 089
Other operating expenses	546	

- (a) What was the profit for the year margin?

(1)

- A 5.47%
- B £3 543m
- C 6.31%
- D £64 280m

Answer

B

- (b) Explain why this answer is correct. (Show your working)

(3)

Profit is the reward from cost of production in a business.

$$\begin{aligned} \text{Gross profit} - \text{Other expenses} &= \text{Net profit} \\ 4089 - 546 &= \underline{\underline{3543m}} \end{aligned}$$

Gross profit is the profit found by subtracting the cost of sales by sales.

Net profit is found by subtracting other expenses by gross profit.

Answer D is wrong since it is the subtraction of sales by other expense.



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There were no marks given for part (a) because the question asked for the profit for the year **margin**. The student has identified the actual profit value amount.

In part (b) the student was able to gain 1 mark for showing the correct formula for calculating profit for the year. To gain full marks the student needed to convert this to the correct percentage to show the profit for the year **margin**.



ResultsPlus Examiner Tip

Even if students don't know the correct answer to part (a) it is worth attempting to answer the question. If students know why one or more of the distractors are incorrect, it is also worth writing out why they are wrong - in the context of the business in the question - they may pick up additional marks.

Question 5

There were some very generic answers to this question on demographics. There was not enough application to Mothercare's decision to open new stores in India in many of the responses.

Q5 (a) Most students identified that the correct answer was B (Demographic).

Q5 (b) Many students were able to define demographics in relation to the changes in a population. A significant number of students defined demographic segmentation as a marketing decision and that was not acceptable in the context of the question. The question was about Mothercare's business decision to open stores in India due to changes in the population. It would have helped many students access further marks if they could say why Mothercare was targeting the growing number of under 35's in India. Many of the answers were generic and not applied enough.

There would have been opportunities to award more marks if the responses were applied to the business rather than the population. This again is the case with answers for why distractors were wrong. Too generic and not applied. Definitions rather than explanations of how/why they were incorrect.

This was one of many answers where part (a) was correct then giving a definition of demographics as market segmentation rather than changes in the population. However, the student was still able to pick up two marks for part (b).

5 The number of people aged under 35 in India is increasing. Mothercare plc, a retailer of products for babies and children, is opening new stores in India.

(a) Which **one** of the following factors is **most likely** to have influenced this decision?

(1)

- A E-commerce
- B Demographic
- C Ethical
- D Environmental

Answer

B

(b) Explain why this answer is correct.

(3)

Market segmentation is dividing a large market or breaking down a large market into small groups/segments which include buyers of similar needs and characteristics.

Demographic deals with the age, which in the case of India's population: ~~under~~ ^{aged under} 35 is increasing hence

the chances of more marriages may occur. More marriages or newly-weds will have babies hence Mothercare plc is deciding to open new stores for babies and children wear, as demand is predicted to rise.



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Examiner Comments

The incorrect definition of demographics meant the knowledge mark could not be given. The application mark was awarded for recognising that the number of people under 35 years is increasing and are more likely to have babies. One mark for analysis was given for recognising the potential consequences to Mothercare for this change in the population. The student identified Mothercare's business decision as a result of this predicted rise in demand for babies and children's products. This was a well answered question with good application and context. Only the incorrect definition prevented full marks.



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Examiner Tip

Knowledge marks can be gained by starting with a correct definition. Students should read the stem and question carefully to ensure they are giving the correct definition for the key part of the question. Marks will not be awarded for repeating or rewording the stem or the question.

Question 6

There were several well answered responses. However, some students struggled to explain the impact of an increase on corporation tax on profitability.

Q6 (a) The majority of students identified that the correct answer was D (retained profits).

Q6 (b) Many students attempted to define corporation tax which was not the requirement of the question – this was well described in the question stem. Several students correctly defined profit but were not awarded the mark as this was not the required answer. A number of students were able to describe 'retained profits' which was excellent and exactly what was required.

Generally this was one of the weakest answers of the multi choice questions. A lot of the answers in section (b) re-answered section (a) but just used more words to say the same thing. Students need to develop a structured approach to answering these questions. Knowledge/understanding, Define profitability/retained profits. Application, explain why businesses have to pay corporation tax. Then analysis – what are the consequences to businesses when the taxes rise.

Again, distractors not well explained in terms of the question. How/why are they incorrect. What is the significance of them to the business or the issue under discussion?.

This is a good example that gained full marks through a correct answer to part (a), with two marks given for explaining why it is correct in part (b) and the third mark given for a good explanation of why a distractor is wrong.

6 Corporation tax is paid by businesses on their earnings at a level set by the government.

(a) An increase in corporation tax will initially result in a reduction in

(1)

- A price
- B variable costs
- C fixed costs
- D retained profit

Answer

D

(b) Explain why this answer is correct.

(3)

Retained profit is the profit pulled back the previous year and is kept in the business which can fund any objectives, But in this case an increase in corporation tax would mean businesses

pay more out of their earnings and thus are left with lower profits ~~the~~ therefore less retained profit. Option A is incorrect as ~~the~~ increase in tax would lead to businesses deciding ^{to increase price.} (Total for Question 6 = 4 marks)



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It should be noted that no marks were given to answers that defined corporation tax. This was given in the stem of the question. Also, no marks were given for a generic definition of profit.

The knowledge mark was given for a definition of retained profit that indicated that it was profit that had been kept in the business for a specific purpose, rather than paid out to the owners or shareholders.

In this example retained profit is well defined and the student clearly states that this is profit which has been kept from the previous year and can fund any objectives. The application mark is given for stating that the business will have to pay more corporation tax out of its earnings which leaves it with less profit and therefore less to be able to retain in the business.

The mark given for describing why option A is incorrect was given because the answer was developed. Many students only stated that 'corporation tax would not decrease prices'. In this example the student explained that an increase in corporation tax is more likely to lead to a business increasing their prices. This was answered in the context of the question.



ResultsPlus Examiner Tip

This is another example where it is important to recognise which definition is needed for the knowledge mark.

Question 7

There was evidence that many students have been well taught about the 3+3 mark structure as required on IAS papers, and most did give at least 2 entrepreneurial characteristics.

Students need to focus on the characteristic they identified and then further develop that to access the application and analysis marks. The majority of students missed out on the analysis marks because they did not develop their discussion to consider reasons, conclusions or consequences.

This question asked students to discuss TWO entrepreneurial characteristics shown by Ben Kaufman. A full list of the characteristics given in the unit specification did not gain any marks as it was not applied to the question.

7 Explain **two** entrepreneurial characteristics displayed by Ben Kaufman. (Evidence A)

Entrepreneurial characteristics are the personal skills of a person, these include, hard working, resilient, initiative, creative, innovative etc.

- Ben Kaufman has the characteristic of being initiative as he took up the courage to found Quirky in 2009.
- Creative: Ben is a creative entrepreneur as he introduced Mophie a creative accessory and founded Quirky to welcome a lot more creative ideas.



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Examiner Comments

In this example the student did go on to identify that Ben Kaufman shows initiative and is creative which gained the two knowledge marks.

However, there were no application marks given for 'initiative' because, although the student identified the founding of Quirky, there was no explanation of how this demonstrated initiative. For example, Ben showed initiative by starting a new business rather than wait to be employed by someone else.

The third mark was given for the application in context for 'creative' because Ben had invented 'Mophie' (and this would have also been given if he had just said he started Quirky to welcome more creative ideas). There was only one application mark given to each characteristic.

There was no development of these characteristics for analysis marks by showing potential results or consequences. For example, in 'creative' using the start up of Quirky - this led to Ben being able to bring lots of innovative products to market.

Please note: Students who identified Ben as a risk-taker because his parents remortgaged their house to help him develop Mophie were only given the mark if they also identified Ben's role in this. For example, if they stated Ben persuaded or convinced his parents to remortgage. Otherwise, the risk takers were his parent's and not Ben.



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Examiner Tip

When asked for TWO of anything in a six mark question, students can maximise their marks by explaining each one thoroughly in turn as marks are usually given 3+3. For example, to access the knowledge mark identify or define the requested item (eg characteristic or factor). Application in context - relate this to the business or case study. Analysis - give the result, cost or consequence of the application. This will give three marks for each item.

Question 8

This question was generally fairly well answered. Some students did better on one part of the question than the other. Where marks were lost, it was usually due to either poor application, for example, only making general statements about pricing or supply; or not developing their analysis through using connectives and consequences for Ben Kaufman or Quirky when setting up businesses.

Question 8 (a)

The majority of students got marks for knowledge and understanding, and there were some strong definitions for opportunity cost. Stronger students offered some analysis particularly the fact that the opportunity cost of taking employment actually paid off well for Ben given the current success of his business. It was heartening to see the wealth of ideas of opportunity cost that students presented as application in this question. Of concern were the small number of students who believe that opportunity costs is a real and financial expense to the business. A small number also equated this to the actual start-up costs of a business rather than the opportunity cost to Ben of starting a business.

Question 8 (b)

Many students attempted to define a venture capitalist but usually only managed one element such as an external source of finance or for a high risk venture. Stronger students were able to discuss that venture capitalists may also want a share in the business in addition to a slice of the profits in return for their high risk. One area of concern is that a significant number of students believe that venture capital is the same as 'share capital' in relation to the share issue of limited companies. This may be a confusion when discussing a percentage 'share' of the business expected from some venture capitalists. The majority of students discussed the elements of risk and that *Quirky* was a 'risky business' because of the very innovation that gets them noticed.

In question 8 (a) the definition of opportunity cost is correct and this was similar to the answer given by most of the students who answered this question.

In question 8 (b) there was a lot of misunderstanding of venture capital with very few students getting the correct definition of this.

8 (a) Explain the opportunity cost of setting up a business to an entrepreneur, such as Ben Kaufman.

(6)

Opportunity cost is the next best alternative given up when choosing between two options. ~~Ben Kau~~
There are many decisions need to be made when starting ~~a~~ up a business. The common opportunity cost that most entrepreneurs face is that they need to give up their salary of original job as they cannot afford to be both an employee and an entrepreneur. For Ben Kaufman, he gives up ^{his} the dream to become an inventor as he has invented an iPhone accessory.

before starting up his business. His parents remortgaged their house to provide some finance for Ben to fulfill his dream. ~~If not~~ and bring ~~the~~ Mophie to the market. He could have use the money on other places such as shopping. An entrepreneur ~~gives~~ gives ~~up~~ many things when setting up a business as ~~they~~ ~~is~~ most of them want to gain independence and earn profit.

Quirky has access to more than \$90m of venture capital.

(b) Explain why venture capital is an appropriate source of finance for Quirky.

(6)

Venture capital is the amount of money invested by one or more individuals who believe the business will succeed. Quirky has obtained more than \$90m of venture capital, maybe by bankers. So Quirky can use this capital to develop the new ^{potential} products and buy supplies. They might also use it for market research purpose to obtain feedbacks from the community members. Venture capital is appropriate for newly set up business like Quirky, as banks might consider them as risky business and refuse to borrow them loans. ^{Moreover,} Ben does not have much capital to invest into Quirky. But venture capitalists believe Quirky will earn a lot of profit in the future. Quirky does not need to return the money to investors but profit is expected as return when they succeed. ~~Therefr~~ However, Quirky might still need to use other sources of finance such as overdraft to fund their daily operation and solve cash flow problems.



Question 8 (a)

Having gained two knowledge marks for the definition of opportunity cost, it should have been relatively easy to gain full marks for the rest of the answer but this did not occur in this example. This was typical of most of the students answers.

For application, this student identified the opportunity cost of being an entrepreneur as the job they could have had if they were employed by someone else. The analysis mark was given for identifying the consequence as loss of a salary/steady income. This gave another two marks which is how this student achieved four marks.

However, the answer 'he gave up his dream to be an inventor' could not be awarded any marks because it was not fully applied or developed. This was a near miss for the marks. If the answer had been developed to say, for example, 'Starting Quirky meant that Ben was developing other people's ideas (application), so the opportunity cost to him was not being able to develop his own inventions (consequence, therefore analysis), a further two marks could have been gained.

Once again, there is mention of Ben's parents remortgaging their house - this is not an opportunity cost for Ben and it is extremely unlikely they would have done this so he could go shopping. Therefore this was not accepted as a relevant opportunity cost.

Question 8 (b)

The definition in this example could be a description of the owners capital investment in the business. There needs to be a recognition that venture capital is an external source of finance for one of the knowledge marks. The second knowledge mark would be gained for defining that venture capitalists invest in risky businesses. The student did get this mark. The second mark was given for identifying that because Quirky was a riskier business, the banks would not be likely to invest.

There were no marks awarded for stating what Ben/Quirky could use the money for. These options were available regardless of the sources of finance and not relevant to the question. Also, no marks were awarded for repeating sections of the case study and not discussing them in context (eg Quirky had raised \$90m in venture capital - the 'so what' technique might have helped here).



When making statements students need to fully develop their answer. Using the 'so what' technique could help them with this.

In the case of opportunity cost 'he gave up his dream to become an inventor' could have been developed if the student had said to themselves 'so what does that mean for Ben Kaufman or so what did he give up or forego?' This helps develop a more in-depth answer.

Question 9

Question 9 (a)

A large number of students responded to this question extremely well, achieving full marks. It was refreshing to see students using a number of ways to solve this formula. However, a significant number did struggle to calculate the break-even contribution for a single unit (pack). Some students did get as far as calculating the total contribution of \$320 000. They then missed the final section to divide that by the total break-even number of packs at 40 000 - which would have given them the correct single unit break even contribution of \$8.

Question 9 (b)

A significant number of students were able to access Level 3 and Level 4 marks for this question about pricing strategies. Marks were picked up for discussing cost plus pricing and how the relative simplicity made it easy to apply to the wide range of Quirky's products. What was particularly pleasing was the discussion about alternative pricing strategies and how these could be applied to different products in Quirky's range. For the student that struggled with this question, the issue appears to be in taking discussions to a logical and applied conclusion. Much of the weaker discussions were about generic cost plus pricing, the relative advantages and disadvantages without really addressing the question in relation to Quirky. These responses could have been improved if context to the business had been used as a structure for the answer.

In question 9 (a) not all students understood that this required the variable cost of a single pack at the break-even level of output.

In question 9 (b) the question asked about the suitability of a cost plus pricing strategy. Most students discussed cost plus pricing but did not consider other strategies.

- 9 Quirky has calculated that it needs to sell 40,000 packs of Bandits at a price of \$10 per pack in order to break even. Fixed costs are \$80 000.

(a) Calculate the variable cost per pack of Bandits at this break-even level of output.

(4)

$$\text{Break-even} = \frac{\text{Fixed cost}}{\text{Selling price} - \text{Contribution}}$$

$$40000 = \frac{80000}{10 - x}$$

$$80000 = 40000(10 - x)$$

$$80000 = 400000 - 40000x$$

$$40000x = 400000 - 80000$$

$$40000x = 320000$$

$$x = \frac{320000}{40000}$$

$$x = 8 \quad \text{Variable cost would be } \$8 \text{ would need to sell it}$$

Break-even level is the amount of sales (revenue) needed to cover all costs

Quirky regularly introduces many new products to the market.

(b) Assess the suitability of cost-plus pricing for Quirky's new products.

(8)

Cost-plus pricing is ~~then~~ a percentage mark-up added to the cost of production. It is usually a fixed percentage. Quirky[®] has sent 313 products to the market, dealing with retailers.

Knowing that these products are unique and original like the Bandit, this will enhance competitive advantage for its product, therefore demand can remain high even though prices were high, due to ~~cost plus~~ cost-plus pricing. If ~~then~~ ~~business~~ Quirky aims to make large amounts of revenues, it can ^{either} use competitive or penetration pricing. Penetration pricing would allow ~~lower~~ ~~price~~ lower competitive pricing would allow lower prices for products but large demands and revenues.

Overall, cost-plus pricing would generate high turnovers, ~~however~~ however, it can put off many customers due to high prices, therefore different pricing strategies like competitive pricing should be used instead.



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Examiner Comments

Question 9(a)

In this example we see an excellent answer. It fully addresses the question. Gives the correct formula followed by a correct calculation that is taken to the required answer of variable costs per pack. There is also a definition of break-even which in this case is not necessary as full marks had already been achieved.

Question 9(b)

This is quite a good answer in assessing cost plus pricing. There is a good definition to achieve the knowledge marks. Application is given in identifying that 313 (a wide range of) products have been sent to market which are unique and original (few substitutes).

Whilst there is no analysis present - no costs or consequences - the student does offer some evaluation which takes them to the next level of marks. They identify competitive and penetration pricing but only briefly comments on competitive pricing. Had this been more fully developed by putting both sides in full context this answer would have achieved full marks.



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Examiner Tip

When answering a calculation question like 9(a), if students are unsure of the figures to use they can sometimes gain one mark by either giving a correct definition or by writing out the correct formula.

Students need to read the command words in the question to understand what is required of them. In question 9(b) students were asked to **assess** the suitability of cost plus pricing. This means the answer required two sides to be assessed/evaluated in context. Even if it is not mentioned - by bringing in an alternative strategy, students are maximising their chances for evaluation marks.

Question 10

In this question students were asked to consider the impact of the non-price supply factors of changes in costs and technological change. Many students again missed the application marks and therefore the analysis was rightly limited due to lack of context. Most responses focussed on changes in costs as a non-price supply factor. A few students did discuss the impact of rising costs. However, the majority of the answers discussed what would happen if costs fell. There were naïve discussions about how decreased supply costs (fuel, labour, raw materials) would decrease production costs, making prices cheaper. At no point did students consider the likelihood of fuel costs or labour costs reducing significantly. There were too many students who failed to achieve two sided context and so limited themselves to the lower level marks. The stronger students that achieved the mid to high evaluation marks offered a broad and in depth understanding of the possible impacts of non-price supply factors to the continuing success of Quirky.

This question asked for an assessment of the impact of two non-price supply factors on the continued success of Quirky. The factors given were changes in costs and technological change. Whilst most students did assess these factors, quite a few discussed other factors and missed out on valuable marks.

10 Two non-price supply factors are changes in costs and technological change.

Assess the impact of these factors on the continued success of Quirky.

Non-price supply factors cause a shift in the supply curve.

A change in costs would affect the profit and supply of Quirky. If the costs increase, the costs of all the products and raw materials would increase as well; when the price of products increases the demand on the product would decrease and therefore the quantity supplied would decrease. Supply and price are inversely proportional.

But if the costs ~~de~~ decrease, the cost of products and raw materials would decrease which would cause an increase in the revenue and profit; thus the supply would increase.

An increase in the costs would affect Quirky in a bad way and it may lead to losses and failing of the

business; but if the costs decrease this would boost Quirky's profits and therefore would continue to be successful.

For the technological change, a change in technology would mean that Quirky's products would have to produce products according to the standards and more technological; also it would

have to use technology in production & manufacturing.

This ~~is~~ would increase short term costs to buy new machines and more technological assets but would increase productivity and profits in the long-run.

Of the technology of goods, Quirky may have to employ new and more expertized engineers to use and create the new technology and create innovative technological ~~and~~ products.



ResultsPlus Examiner Comments

In this example the student identifies the impact on changes in costs for knowledge marks.

Many students discussed at great length that changes in costs and technology can make the supply curve shift to left or the right. Many went on to discuss the impact on price and demand - which was not the purpose of the question. The question was trying to ascertain a student's understanding of non-price supply factors. This meant that students never moved out of the knowledge level to access the higher marks.

In this example the student identified changes in raw materials costs and labour in technological change to access application marks.

There was analysis in context for this student when they discussed the changes/improvements in technology would increase productivity and therefore profits in the long run.

There were no evaluation marks in this example which could have been achieved if the students had mentioned that the level of impact would depend on the scale of change. Also that competitors also had access to improvements in technology and what the impact of that could mean to Quirky.



ResultsPlus Examiner Tip

Students should ensure they read and understand the full question before starting their answer. Valuable time and marks can be lost by not answering the actual question asked.

Question 11

The majority of students showed understanding of the term product orientated and were able to discuss generically at Level 1 and 2. At these levels students tended to describe the generic features of product and market orientation or the advantages and disadvantages of each rather than assess whether Quirky is actually one or the other. The students who accessed Level 3 were able to have clear discussion about Quirky as a product oriented business because their focus was on product development. The inventors, influencers and engineers were all focussed on developing and improving the new products. Some students went on to support these arguments by explaining that the final three products for development were decided by the Quirky team therefore it was product oriented. A small number of stronger students were able to argue that actually Quirky could be also considered market oriented as the online community acted as a market research/consumer forum giving feedback.

This question asked students to assess whether Quirky is a product orientated business. Most students discussed Quirky only in terms of product orientation and missed valuable marks by not considering whether it is also market orientated.

11 Assess the extent to which Quirky is a product orientated business.

→ Product orientation is an approach to a business which focuses on the production process and the product itself.

→ Quirky mainly focuses on the production of its inventions and their development. The

→ This ^{online community votes for inventions amongst the inventions,} would make the

product more qualitative and efficient. The invention is likely to be costly, hence focusing on its production process and its efficiency is very important.

→ However, ~~the~~ market orientation is a much successful approach to business as it takes the needs ^{and wants} of the customers into consideration.

→ The product ^(invention) might fail and result in huge losses, especially if it's costly. Hence, Quirky should be aware of their any market gap or ^{what} consumers are demanding.

→ This would fulfill the demand of the consumers and less likely result in the failure of the business.

→ Taking both the approaches equally would ^{turn out to be} very successful for the business.



ResultsPlus Examiner Comments

In this example the student gave a correct definition of product orientation to access the knowledge marks. There was further focus on product orientation for application marks by identifying that the community present qualitative ideas and improvements for inventions. This led to the student identifying that production was costly so the community was art of the focus on production efficiency.

However the student did define market orientation and explained that it takes the needs and wants of customers into account. The student also went on to state that taking both approaches would turn out to be very successful for the business.

What did not happen was the student discussing market orientation in the context of Quirky. What they did was to say that Quirky **should** be aware of its market as products would be less likely to fail.

In effect the student discussed 'what if' in terms of Quirky and not 'what is'. If the student had discussed Quirky as market orientated because they had the community of influencers giving feedback, that would have taken them to the evaluation marks. Unfortunately, because market orientation was not discussed in the context of what Quirky actually does, this was limited to level 3.



ResultsPlus Examiner Tip

When answering any question, it should always be discussed in context of the business or case study. Students should check the number of marks available (in this case 14) to gauge what depth of answer is required. Assess questions and 14 marks indicate a substantial two sided 'argument' is required - in context.

Paper Summary

On the whole, this series was of a higher standard than seen previously. There were fewer questions left blank and more attempts at accessing higher level marks for analysis and evaluation.

That said, many students still need to grasp the idea of logical progression in their answers from knowledge and understanding, to applying that knowledge to the business in the questions and then analysing the potential costs and consequences to the business.

Further development of understanding is needed generally in understanding venture capital and demographics in economic rather than market segmentation terms.

Overall, an improving set of results.

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>

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with its registered office at Edinburgh Gate, Harlow, Essex CM20 2JE