

INTERNATIONAL ADVANCED LEVEL

BUSINESS

Exemplars with examiner commentaries Unit 2 - WBS12

Pearson Edexcel International Advanced Subsidiary in Business (XBS11)

Pearson Edexcel International Advanced Level in Business (YBS11)



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Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the Pearson Edexcel International A Level in Business specification. The Unit 2 (WBS12 01) exemplar materials will enable teachers to guide their students in the application of knowledge and skills required to successfully complete this course. The booklet looks at questions 1(a), 1(b), 1(c), 1(d), 1(e), 2(a), 2(b), 2(c), 2(d), 2(e) and 3 from the June 2019 examination series, showing real candidate responses to questions and how examiners have applied the mark schemes to demonstrate how student responses should be marked.

1.2 How to use this booklet

Each example covered in this booklet contains:

- Question
- Mark scheme
- Exemplar responses for the selected question
- Example of the marker grading decision based on the mark scheme, accompanied by examiner commentary including the rationale for the decision and where relevant, guidance on how the answer can be improved to earn more marks.

The examples highlight the achievement of the assessment objectives at lower to higher levels of candidate responses.

Centres should use this content to support their internal assessment of students and incorporate examination skills into the delivery of the specification.

1.3 Further support

A range of materials are available from the Pearson qualifications website to support you in planning and delivering this specification.

Centres may find it beneficial to review this document in conjunction with [the Examiner's Report](#) and other assessment and support materials available on [the Pearson Qualifications website](#).

Question 1(a)

Define the term 'venture capital'. (Extract A, line 14)

(2)

Mark scheme

Question Number	Answer	Mark
1(a)	<p style="text-align: center;">Knowledge 2</p> <p>Up to 2 marks for defining the term 'venture capital', e.g.</p> <p>A method/source of finance to fund a business (1) where the risk is greater for the investor (1)</p> <p>NB: Reward any other suitable alternative. Do not award marks for examples.</p>	(2)

Exemplar response A

This is a source of finance where money is received from an investor who in return takes a stake in the business management process. Venture capitalist is a form of one time investment.

Examiner's comments:

This response was given 2 marks.

Define questions require two separate parts to define the term. This response was awarded 1 mark for the 'source of finance' and 1 mark for 'in return takes a stake in the business'. As you can see, the second part of the response is not the same as e.g. in the mark scheme. However, it is important to note that the mark scheme only gives an example of an appropriate response as it is not realistic to list all possible options. It also states to 'reward any other suitable alternative'. In this response, this was 'in return for a stake'. Other acceptable responses worthy of a mark included 'for small to medium sized businesses' or 'by a business angel' rather than 'greater risk'. There are no marks awarded for examples with these question types.

Exemplar response B

It source of finance, when private investors invest in your company. Investors usually then get a per cent from profit.

Examiner's comments:

This response was given 1 mark.

This response received 1 mark for reference to 'source of finance'. It did not get the second mark as it only gives a vague definition that could be talking about alternative sources of finance and is not specific to venture capital. It therefore does not show sufficient knowledge to be awarded more than 1 mark.

Question 1(b)

Using the data in Extract B, calculate, to two decimal places, the gross profit margin for *Zwift* in 2017. You are advised to show your working.

(4)

Mark scheme

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Quantitative skills assessed:</p> <p>QS2: calculate, use and understand percentages and percentage changes</p> <p>Knowledge</p> <p>1 mark for identifying the formula for gross profit margin:</p> <ul style="list-style-type: none">Gross profit / Revenue x 100 (1) <p>Application</p> <p>Up to 2 marks for selecting the correct data from Extract B:</p> <ul style="list-style-type: none">15 000 000 (1) / 36 000 000 (1) x 100 <p>Analysis</p> <p>1 mark for calculating the gross profit margin:</p> <ul style="list-style-type: none">= 41.67% to two decimal places (1) <p>NB: If no working is shown, award marks as follows:</p> <ul style="list-style-type: none">If the answer given is 41.67% award 4 marksIf the answer given is 41.7% award 3 marksIf the answer given is 41.67 award 3 marksIf the answer given is 41.7 award 2 marks	(4)

Exemplar response A

$$\text{Gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100$$
$$\frac{15000000}{36000000} = 0.416 \times 100 = 41.67\%$$

Examiner's comments:**This response was given 4 marks.**

The correct answer of 41.67% was given and so all four marks were given. Had an error been made with the final answer, 1 mark would still have been awarded for the formula of gross profit/revenue x100 (please note that the x100 must be included). 1 mark would also have been given for each correct figure substituted into the correct place in the formula from the extract. In this case, that is 15 000 000 (1) and 36 000 000 (1). Please also note that the % must be used in the final answer and, as requested in the question, it must be shown to two decimal places.

Exemplar response B

$$\begin{aligned} \text{Gross profit margin} &= \frac{\text{Gross Profit}}{\text{Revenue}} \times 100\% \\ &= \frac{15\,000\,000}{36\,000\,000} \times 100 \\ &= 41.67 \end{aligned}$$

Examiner's comments:**This response was given 3 marks.**

The final answer given was 41.67 without the % sign. The mark scheme shows that a correct final answer missing the % sign can be awarded 3 marks. It is also possible to see how the response could be awarded 3 marks by looking at the knowledge and application given. There is a correct formula for 1 mark and there are 2 marks for application where the correct figures have been substituted into the right place from the extract. Please remember that all correct answers to calculation questions must include the appropriate units.

Question 1(c)

Analyse **two** possible advantages for *Zwift* of using a business plan when setting up the business. (6)

Mark scheme

Question Number	Answer	Mark
1(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge Up to 2 marks for defining, e.g.</p> <ul style="list-style-type: none"> • A document designed to provide information about a new business (1) to persuade financial backers to invest (1) <p>OR</p> <p>For stating up to two advantages, e.g.</p> <ul style="list-style-type: none"> • To gain finance (1) • To show how the business will be run (1) <p>Application Up to 2 marks for answers contextualised to <i>Zwift</i>, e.g.</p> <ul style="list-style-type: none"> • <i>Zwift</i> first launched the program with an investment of \$3m (1) • <i>Zwift</i> has 300,000 riders from over 150 countries (1) <p>Analysis Up to 2 marks for reasons/causes/consequences for <i>Zwift</i>, e.g.</p> <ul style="list-style-type: none"> • As a result of producing a business plan, <i>Zwift</i> may have been able to obtain enough finance to allow them to launch the program (1) • Potential problems could have been found and resolved by producing a business plan, helping the business to be successful (1) 	(6)

Exemplar response A

By setting up a business plan Zwiift may gain two possible advantages. The first advantage Zwiift may gain is the overview of the market. When setting up a business plan it ^{may} requires the Zwiift to analyze the market, for competitors, prices, etc. For example, Zwiift has no direct competition in the market, this allows them to set the prices for the game.

The second advantage is the financial balance sheet for expenses. By setting up a business plan Zwiift ^{may have} ~~has~~ to calculate all of its ^{expenses} ~~operating~~ ~~at least~~ to set up the business. This may help with when searching for investors, because it shows them the exact ^{costs} ~~price~~. For example, Zwiift calculated that their initial investment was \$3 million, in order to set up the Zwiift.

Examiner's comments:

This response was given 6 marks.

All 6 marks were awarded for this response as it has stated two suitable advantages, each of which is applied to Zwiift and has a cause/consequence. There are 3 marks available for each advantage that is applied and analysed. The first advantage is to 'gain an overview of the market', applied by 'no direct competition' and analysed at the end of the first paragraph. The second advantage is the reference to calculating expenses. It is analysed by 'this may help when searching for investors because it shows them the exact cost' and applied with the reference to \$3 million.

Exemplar response B

A Business plan is very important for any business including Zwigit this is because it allows them to stay organised and prevent problems. By having business plan there is a bigger possibility that they would appeal to ^{potential} investors as they need to give details such as the owner's background which if they are qualified and trustworthy. As they give financial prediction and how much money is needed and where it will be spent it gives an overview of the Zwigit. Giving an image of how much will be spent on creating the virtual ~~game~~ road and the bicycles.

Examiner's comments:

This response was given 4 marks.

There is a lot of knowledge in this response but a maximum of 2 marks can be given for knowledge. This can be either a definition or for giving the advantages, or a combination of these. A third mark was awarded for analysis where the 'appeal to financial investors' was linked to a cause 'how much money is needed and where it will be spent it gives an overview (...)'. 1 mark was also awarded for application at the end of the response: 'creating the virtual road and the bicycles'. This is linked to the knowledge even though it comes in a separate sentence. If it was not linked, it would not have been awarded a mark as it is the advantage that needs to be applied and not stand-alone application.

Question 1(d)

Discuss the likely advantages for *Zwift* of having limited liability.

(8)

Mark scheme

Question Number	Indicative content	
1(d)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • <i>Zwift</i> is a private limited company, meaning it has limited liability • Limited liability means the owners of the business are only liable for the money they have invested in the business • This means Jon Mayfield and Eric Min were able to take more risks without the worry they may lose their personal possessions if the venture failed • <i>Zwift</i> may have grown to have more than 300,000 customers in over 150 countries because the owners were more prepared to take the risks • However, setting up <i>Zwift</i> so it has limited liability would have taken longer and been more complicated than if Jon and Eric operated as a partnership • With less concern over running up huge debts, if problems occur in the future, <i>Zwift</i> may not be able to repay their creditors and could go into liquidation 	
Level	Mark	Descriptor
	0	No rewardable material.
1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
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 effect(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.
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.

Examiner's comments:

Please note that for all levels of response questions, the indicative content is only that and many other possible chains of reasoning could be offered. This is stated in more detail at the top of the indicative content for each levels of response question.

Exemplar response A

Limited liability is when the business and the owners/shareholders have separate legal identity, this means if the business is debt owners personal assets are not taken away only the money invested into the business is lost.

An advantage for Zwift of having limited liability is that they will be able to ~~raise~~ ^{take risks} finance by selling shares. This means they can raise a large sum of money. Jon and Eric launched Zwift by an initial investment of \$3m, for two cyclists this could be a large amount of money. Therefore Jon and Eric have a higher chance of surviving and expanding in the future if their investment is larger this is shown as they had more than 300,000 riders in October 2017, this could lead to ~~higher~~ more sales revenue that could be spent on marketing. However, having limited liability could lead to investors or banks not willing to provide capital for a business such as Zwift as there is a high risk of the money not being paid back and ^{they} can't go after ~~personal~~ assets of shareholders.

But other ~~given~~ sources of finance such as venture capitalists or business angels would be more interested in businesses with limited liability as they ensure that their personal assets are secured if the business ever goes bankrupt. This is shown as ^{there} was a ^{large} ~~great~~ investment of \$2.7m by a venture capitalists in 2016.

Examiner's comments:

This response was given 7 marks.

Questions with the command words, **discuss**, **assess** and **evaluate**, are marked by level of response using the descriptors that appear in the mark scheme. It is important to focus on the requirements of each level descriptor.

This response most closely matched the level 3 descriptor but it did not fully meet the requirements to score all 8 marks. It has accurate knowledge and understanding and is supported by relevant and effective use of business context for some of the answer. The response has logical chains of reasoning, is well contextualised and shows an awareness of competing arguments. It does not score all 8 marks because it lacks balance, with the competing argument lacking context and development.

Exemplar response B

Limited liability is when a business and its owner(s) are viewed as two separate legal entities. One advantage is that Jon Mayfield and Eric Min will both be protected if Zwift is ever faced with legal action. As the business has limited liability, both of their personal assets will be protected as Zwift is its own legal entity. Another advantage is that Zwift is now able to hire, or fire employees, sue and be sued, as well as own and sell assets. This allows Zwift to continue expanding without its owners worrying about their own wellbeing. Compared to unlimited liability, Zwift made the right decision due to the sheer number of consumers of its app. If one customer were to injure themselves, unlimited liability would cause Mayfield and Min to be the ones held responsible. However, limited liability allows Zwift to operate with these thousands of users without the fear of being sued. Overall the final advantage is that, if Zwift were to ever go into debt, then the owners will not have it fall onto their shoulders. Overall, limited liability allows Zwift to protect its owners and itself.

Examiner's comments:

This response was given 6 marks.

This response presents a decent one-sided argument that is well contextualised. It has chains of reasoning, but these are not as strong as in the last example. It is not all accurate and examiners, therefore, would not credit the part about 'hiring and firing employees'. As there is no negative marking, the strengths of the response are taken into account holistically. There is an attempt at a competing argument but there is no balance. It therefore meets all the level 2 descriptor requirements and so the examiner looked at level 3 and was able to award 6 marks, at the bottom of that level. Examiners read the whole of the response before placing it in the level where it most closely matches the descriptor.

Question 1(e)

Assess the likely impact on *Zwift* of a competitor entering the market of virtual reality cycling. (10)

Mark scheme

Question Number	Indicative content	
1(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • A competitor is a business in the same market that offers a similar product or service • <i>Zwift</i> doesn't currently have any direct competitors • A new competitor would mean <i>Zwift</i> would need to ensure its program was competitive in terms of price and quality • It may mean it would be less likely to raise its price of \$10 per month to its riders as the new competitor may charge less • The new competitor may have new maps, roads and landscapes to attract the customers and so <i>Zwift</i> may have to increase the availability of its game, or change it to make it more competitive • However, <i>Zwift</i> has had several years to build up a strong customer base of more than 300,000 riders meaning it is well known in the market • It would be difficult for a competitor to build up enough custom to attract riders already subscribing to <i>Zwift</i>, as they have the opportunity to ride with cyclists in over 150 countries 	
Level	Mark	Descriptor
	0	No rewardable material.
1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
3	5–7	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s).

		An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
4	8-10	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).</p> <p>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.</p>

Examiner's comments:

Please note that for all levels of response questions, the indicative content is only that and many other possible chains of reasoning could be offered. This is stated in more detail at the top of the indicative content for each levels of response question.

Exemplar response A

Zwift is right now operating a niche, which means they are currently exploiting their popularity and uniqueness while no competitors are present. This means they are likely to charge premium prices because people are willing to pay more, since they are the only supplier to the market. However, if a competitor were to enter the market these opportunities might disappear for Zwift. When a competitor has waited this long to launch their product, it is likely to be of excellent quality, may even be better than Zwift's. They are also likely to charge lower prices to try to win sales over Zwift. Zwift may now be forced to lower their prices to stay competitive, say from \$10 monthly fee down to \$7. This will lower their sales revenue, and as costs remain the same, possibly even increase due to higher promotional levels, their profit margins will fall and their gross profit no longer \$15,000,000. They will now be less profitable.

On the other hand, a competitor might not have such a big effect on Zwift anyways. Since they were a 'first-mover' into the market, and operated for some time before rivals entered, they might already have gained some customer loyalty.

If this is the case, even with competition present, they might still be able to charge \$10 per month and keep their sales level more or less intact.

In the end however, competition is likely to have big impacts on companies because the profit and customers now have to be shared between more business, and they will fight for it.

(Total for Question 1 = 30 marks) Total

Examiner's comments:

This response was given 8 marks.

This response most closely matched the level 4 descriptor, but it was only awarded 8 marks, placing it at the bottom of the level. This was because it did not fully meet the level 4 requirements for 10 marks. It has accurate knowledge and understanding and is supported by relevant and effective use of business context. There are logical and coherent chains of reasoning and the assessment is quite balanced, although perhaps better application could have been presented in the competing argument given the amount of evidence available in the extracts. A judgment is attempted but it is weak and so overall, the response was regarded to be a weak level 4 answer.

Exemplar response B

Zwift currently has monopoly on the virtual reality cycling market. However, if a competitor were to enter the market then it could have drastic effects on Zwift. The first assessment will be about customer loyalty. As Zwift is currently the market leader, it can build customer loyalty in order to prevent a competitor from entering the market effectively. Yet, if Zwift is reluctant in doing so, then a rival may come in and steal consumers from Zwift by offering better deals and such. The next assessment is technology. Zwift's product is currently considered to be "innovative" and this is a large reason why its consumer base continues to grow. By focusing on regularly updating their products, they can discourage competitors from entering the market. However, if a competitor entered with more innovative technology, which may be lighter or more realistic, the public will notice and there even may be a large shift in market share. The final assessment is price. Currently, Zwift is charging \$10 per month for their services, which may be a small price to pay for most consumers. However, a competitor may offer the same service but use penetration pricing in order to get a good market share. This deal may be too hard to resist and Zwift could suffer a loss. Overall, if Zwift takes proper precautions they may be able to hold a monopoly on the market, or at least minimize their losses.

Examiner's comments:

This response was given 5 marks.

There is some decent application in this response and some valid points made but the ideas are not developed or thorough. It reads more like a list of relevant points instead of having chains of reasoning which show cause/effect. There is an attempt at analysis but through assertions. It is unbalanced but overall the response does meet all the requirements of the level 2 descriptor. There are elements of the level 3 descriptor and so it was given 5 marks, the bottom of level 3.

Question 2(a)

Define the term 'consumer trends'. (Extract C, line 3)

(2)

Mark scheme

Question Number	Answer	Mark
2(a)	<p style="text-align: center;">Knowledge 2</p> <p>Up to 2 marks for defining the term 'consumer trends', e.g. Habits or behaviour (1) of those involved in the use of goods and services (1)</p> <p>NB: Reward any other suitable alternative. Do not award marks for examples</p>	(2)

Exemplar response A

These are the tastes and preferences of the customer that keep on changing over time.

Examiner's comments:

This response was given 2 marks.

This response received 1 mark for reference to 'tastes and preferences' and 1 mark for 'changing over time'. As with question 1(a), any suitable alternative could be awarded. Patterns were equally acceptable for the first mark, as was 'which determine products bought' for the second, just to give a few more examples.

Exemplar response B

Consumer trends = trends, which are important now. Consumer set own trends, which should be followed by a business to have high demand on its product.

Examiner's comments:

This response was given 0 marks.

This example has been used to show where an attempted definition is not strong enough to score any marks. The response does not show sufficient knowledge of the term 'consumer trends'. It is too vague and so cannot be credited.

Question 2(b)

Using the data in Extract D, calculate the gross profit for *Starbucks* for the 12 months ending 31 October 2017. You are advised to show your working. (4)

Mark scheme

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Quantitative skills assessed: QS5: calculate, cost, revenue, profit and break-even</p> <p>Knowledge 1 mark for identifying the formula for gross profit:</p> <ul style="list-style-type: none"> • Revenue – direct costs (1) <p>Application Up to 2 marks for selecting the correct data from Extract D:</p> <ul style="list-style-type: none"> • 22 386 800 000 (1) - 9 038 200 000 (1) <p>Analysis 1 mark for calculating the gross profit:</p> <ul style="list-style-type: none"> • = \$13 348 600 000 (1) <p>NB: If no working is shown, award marks as follows:</p> <ul style="list-style-type: none"> • If the answer given is \$13 348 600 000 award 4 marks • If the answer given is 13 348 600 000 award 3 marks 	(4)

Exemplar response A

gross profit = revenue - direct costs

$$22,386,800,000 - 9,038,200,000 = 13,348,600,000 \text{ dollars.}$$

Examiner's comments:

This response was given 4 marks.

The correct answer of 13 348 600 000 dollars was given and so was awarded full marks. It is acceptable for the word 'dollars' to be written instead of using the '\$' symbol. Had an error been made with the final answer, 1 mark would still have been awarded for the formula of 'revenue - direct costs' (cost of sales was also acceptable instead of direct costs). The correct figures have also been substituted into the correct place in the formula from the extract. In this case, that is 22 386 800 000 (1) and 9 038 200 000 (1). The final answer must be in 'dollars' or '\$' to gain full marks.

Exemplar response B

$$\begin{aligned} \text{Gross profit} &= \\ \text{Revenue} &- \text{Cost of sales} \\ 22,386,800,000 &- 9,038,200,000 \\ &= 24,769,011,9 \end{aligned}$$

Examiner's comments:

This response was given 3 marks.

Only 3 out of the 4 marks were awarded for this response. It has shown a correct formula to receive the knowledge mark and both the correct figures have been substituted into the formula to score the 2 application marks. However, the final answer is incorrect. It is possible that the student typed incorrect figures into a calculator but this is a good example of why it is very important to always show your working. Had workings not been shown, this response would have scored 0 marks.

Question 2(c)

Analyse **two** possible reasons why quality management may be important to *Starbucks*. (6)

Mark scheme

Question Number	Answer	Mark
2(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge Up to 2 marks for defining quality management, e.g.</p> <ul style="list-style-type: none"> The process of a business maintaining a desired level of excellence in a product/service (1) by paying attention to each stage of the process (1) <p>OR</p> <p>For giving two reasons, e.g.</p> <ul style="list-style-type: none"> Customers may spend more if they feel more likely to receive good service/product (1) It may earn <i>Starbucks</i> a good reputation (1) <p>Application Up to 2 marks for answers contextualised to <i>Starbucks</i>, e.g.</p> <ul style="list-style-type: none"> <i>Starbucks</i> is focused on maintaining great tasting coffee (1) <i>Starbucks</i> is the 2nd largest coffee chain in the UK behind <i>Costa</i> (1) <p>Analysis Up to 2 marks for reasons/causes/consequences for providing quality control, e.g.</p> <ul style="list-style-type: none"> The customers will be more confident they will be served quality coffee and so provide repeat custom (1) <i>Starbucks</i> may gain a positive reputation and increase market share, challenging <i>Costa</i> (1) 	(6)

Exemplar response A

Quality management are techniques used by businesses to try and ensure that the quality of their products are up to standard, mainly to keep a good brand image and increase consumer loyalty. Quality management has different techniques such as total quality management, quality control & quality assurance. Starbucks is the second biggest coffee house chain in the UK and it also states in the extract consumers expect great quality, taste and service, this shows that quality is a big aspect of Starbucks so to make sure the consumers keep coming and sales remaining constant they have to make sure quality is up good and up to what consumers expect to not loose to its main competitor Costa coffee. Good quality means that consumers wouldn't mind paying a higher price to get better quality and since the average price of its coffee which is around £2.50 which is above average, they will have to maintain quality if they want to charge a reasonable price and if they want to increase price.

Examiner's comments:

This response was given 6 marks.

All 6 marks were awarded for this response as it has stated two suitable reasons, each of which is applied to Starbucks and has a cause/consequence. Quality management is defined alongside the two very well applied and analysed reasons. Definitions are acceptable for the knowledge marks but alone would not allow application and analysis marks because it is the actual reason that needs to be both developed to give a cause or consequence and contextualised.

Exemplar response B

Quality management is important to Starbucks as they are helping to improve the environmental situation. By ensuring their quality of goods is high they may be able to attract more customers if they are known to help the planet and have good quality coffee. As prices are augmented on re-usable cups they need to ensure customers will keep coming back, being loyal.

If Starbucks checks and makes sure the quality is what customers are expecting they may gain customers, increasing revenue, but also possibly surpassing Costa Coffee as their competitor.

Examiner's comments:

This response was given 3 marks.

This response shows an example of where only one reason has been given. The reason is that Starbucks 'may be able to attract more customers'. The last paragraph goes on to analyse this reason and put it in context, with reference to the consequence of quality management potentially leading to 'increased revenue, but also possibly surpassing Costa Coffee as their competitor'. It is important to remember that if the question asks for two reasons, advantages, ways etc., then it will not be possible to gain full marks if only one is given.

Question 2(d)

Starbucks uses cost and revenue budgets at each of its coffee houses in order to meet business objectives such as profit maximisation.

Discuss whether budgeting will always allow *Starbucks* coffee houses to meet its objectives. (8)

Mark scheme

Question Number	Indicative content	
2(d)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • Budgeting provides a target for costs or revenue that a business or department must aim to reach over a given period of time • It would allow each <i>Starbucks</i> coffee house to control its spending so it can aim to keep costs down when buying coffee from suppliers • It would help managers of each <i>Starbucks</i> coffee house to measure performance and compare revenue to see how well they were performing, for example month by month, or with <i>Starbucks</i> in other towns • This may help managers to meet business objectives such as profit maximisation or sales maximisation (increasing revenue from \$22 386 800 000) • However, there is no guarantee these objectives will be met and <i>Starbucks</i> may have wasted time (which they are likely to be short of during busy periods) and money in preparing the budgets • It may depend whether the budgets are prepared in conjunction with one another. If sales revenue from selling the coffee exceeds expectation it may be that costs have to be higher to cater for this extra demand • There may be other influences which can lead to profit maximisation, such as increased demand due to a successful marketing campaign or environmentalists choosing <i>Starbucks</i> due to its stance on coffee cups 	
Level	Mark	Descriptor
	0	No rewardable material.
1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context.

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

Examiner's comments:

Please note that for all levels of response questions, the indicative content is only that and many other possible chains of reasoning could be offered. This is stated in more detail at the top of the indicative content for each levels of response question.

Exemplar response A

A budget refers to a financial plan in which Starbucks would be striving to achieve. By encapsulating cost and revenue budgets Starbucks would be able to manage their costs effectively. Each coffee house would be given targets and limits upto how much they can spend on purchasing coffee beans, sugar, etc which would ensure that they would not overspend rather keep costs to the minimum possible level. As a result, this may have a cumulative effect on reducing total costs of \$903820000 ~~for Starbucks in~~ ^{for Starbucks in} the UK and all its branches thus maximising profits.

Furthermore, budgets create targets to be achieved which can act as a source of motivation ^{and morale}. For instance, if baristas and chefs know that they have to prepare ^{high quality} coffees ~~and~~ ^{whilst} minimising cost upto a certain limit they would ~~be~~ ^{strive to behave} ~~in such~~ in such a manner especially if rewards are being given when budgets are met such as ^a bonuses. As a result, a well motivated workforce may aim to increase overall productivity which inturn could be translated into maximising profits and marketshare by being the ^{second} biggest coffee house chain in UK.

However, the effectiveness of budgets is prone to achieving ~~but~~ objectives for Starbucks as they are only estimates and are subject to calculation errors and if they are unrealistic the entire organisation may be demoralised. As for example, if budgets are set too high, chefs and baristas may not be ^{willing to} ~~be~~ achieve such objectives ^{as} ~~the~~ targets are impossible to achieve.

Examiner's comments:

This response was given 7 marks.

Examiners read the whole of the response before placing it in the level it most closely matches the descriptor. This response was a clear match to level 3 and the starting point is always the middle of the level (or the upper middle when there are an even number of marks). The mark would only go up to the top of the level (8 marks) if the response fully met the requirements of the level. In this case, the response does not show a balanced assessment even though it does show an awareness of competing arguments. It does, however, meet all the other requirements in the level 3 descriptor. As a result, the mark remained at 7 marks.

Exemplar response B

By planning out how much should be spent where and in what department, it can allow Starbucks to meet its goals. For example if their goal is profit maximisation, budgeting may help as they will have a limit of money to work within meaning to buy the coffee resources having a budget ~~set~~ may help Starbucks to try and find a cheaper coffee, which still tastes good. It would motivate workers to keep costs lower. There may be times when budgeting may not be efficient for example, if it is unrealistic there is going to possibly be an adverse variance where they may spend more money than planned. If Starbucks' objectives are based on their budget it all depends how realistic it is, because if it is it can help to plan out how obtain it, but if it isn't it can cause problems.

Examiner's comments:

This response was given 4 marks.

This response provides accurate knowledge which is applied to Starbucks. Chains of reasoning are presented, showing the effects of the points made but these are assertions and incomplete. Although an attempt is made to assess with competing arguments, these are unbalanced. It is therefore a reasonable match to the requirements of level 2. The examiner would start at the mark in the middle of the level (4) and, in this case, the response is neither strong enough to pull it up to 5 or down to 3 marks. It stays at 4 marks.

Question 2(e)

Assess how legislation requiring an additional 25p charge on disposable coffee cups is likely to affect *Starbucks*. (10)

Mark scheme

Question Number	Indicative content	
2(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • Legislation is the making of laws for people to follow • The proposed legislation is to add 25p to the price of disposable coffee cups, therefore making it more expensive for people to buy coffee in coffee houses • This could reduce demand for coffee, especially as 25p would add 10% to the average cost of the coffee (£2.50) • <i>Starbucks</i> would need to implement the legislation which could be time consuming and costly to set up, as well as lead to a loss in revenue and profit • Separating revenue for <i>Starbucks</i> and that for the environmental charities will also take time, which may adversely affect the efficiency of <i>Starbucks</i>' operation • However, the additional charge would apply to all coffee houses and so, if the demand is still there, it will not make much difference to <i>Starbucks</i>' revenue • <i>Starbucks</i> already offers incentives for people to be more environmentally friendly, with discounted prices and options to buy reusable cups. Customers using their own cups are likely to reduce costs for <i>Starbucks</i> • As <i>Starbucks</i> was used to run the test scheme, it may be more favourable towards the idea • The similar idea of 5p additional charge on a plastic bag received a favourable response and so consumers of coffee may also respond favourably to this and still buy coffee at <i>Starbucks</i> 	
Level	Mark	Descriptor
	0	No rewardable material.
1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented but may be assertions or incomplete. A generic or superficial assessment is presented.

3	5-7	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s).</p> <p>An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.</p>
4	8-10	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).</p> <p>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.</p>

Examiner's comments:

Please note that for all levels of response questions, the indicative content is only that and many other possible chains of reasoning could be offered. This is stated in more detail at the top of the indicative content for each levels of response question.

Exemplar response A

Legislation refers to the laws and ideas that businesses are expected to follow when producing a good or service. An additional 25p charge on disposable coffee cups goes under environmental legislation which are rules to prevent pollution, resource depletion ~~of~~ traffic congestion. By charging the additional 25p, the UK government is trying to reduce the pollution in the world since billions of tonnes of waste ^{packaging} end up in the sea. This would benefit / not harm Starbucks as their procedures are focused on reducing environmental concerns whilst maintaining the quality the business provides. After the 5p charge on plastic bags, the government and Starbucks are aware that an increase in price will not heavily affect demand since people want to prevent pollution too. Therefore, by charging an additional 25p to their averagely priced £2.50 coffee if the user purchases a disposable cup will not ~~affect~~ lower the demand for coffee. ~~This~~ Charging around £2.75 will still allow Starbucks to make a profit and sustain its business - ensuring they continue to provide good quality drinks and snacks. ~~However~~ Furthermore, sales may even increase ~~as if people switch~~ if people begin to understand that Starbucks is beginning to become environmentally friendly.* However, this is not certain due to the fact that Starbucks may face a loss if people do not want to pay an additional 25p for the disposable cup or £1 for a reusable cup if

the disposable income of customers begin to fall. They may prefer making coffee at home than paying the additional fee. Though they did not mind the 5p charge on plastic bags, 25p is 20p more than that so individuals may not be ready to pay the higher price. This would drastically affect Starbucks sales, unless they decided to lower the price of coffee to less than £2.50 in order to

(Total for Question 2 = 30 marks)

compensate. To conclude, the additional 25p charge on disposable coffee cups would ~~benefit~~ not harm Starbucks. This is especially due to the fact that consumers may begin to favour Starbucks over Costa Coffee when they realize its ~~more~~ eco-friendliness and how money raised from the additional charge will go to environmental charities for research anyways so it doesn't get kept by Starbucks.

TOTAL FOR SECTION B = 30 MARKS

Examiner's comments:

This response was given 9 marks.

Accurate and thorough knowledge is very well supported throughout by relevant and effective use of context relating to Starbucks. Coherent and logical chains of reasoning are presented and show the causes and effects of each issue. The assessment is reasonably balanced and also well contextualised, using both quantitative and qualitative data. It could, however, offer a better awareness of competing factors. The other factor preventing the full 10 marks being awarded is the judgment. Although it is offered, there is confusion in that Costa Coffee would also have to charge the 25 pence as legislation would affect both of these coffee houses.

Exemplar response B

Legislation is rules and laws by the government pertaining to business practices. It is evident that 25p additional is going to be charged on disposable cups in Starbucks. This could lead to fall in demand due to high prices. This could impact their profitability. However, this depends on the price elasticity of demand of the product. If the product is inelastic, demand will drop negligibly, this will not affect sales as much as if it were to be price elastic, where demand would drop dramatically.

This could reduce their sales and profit. I suggest that Starbucks continues to maintain quality and customer service ~~as~~ because even though in the short run it could impact profit and sales due to high costs. But in the long term it would be benefited as it could increase brand loyalty due to customer satisfaction, which could lead to a higher market share. Legislation that requires an additional 25p charge would affect disposable incomes of customers. This would lead to less confidence and less purchasing power. This could lead to a drop in demand for Starbucks.

Examiner's comments:

This response was given 5 marks.

This response starts quite well, with reference to PED but it is not as strong in the second part of the answer. It has met all the criteria of level 2 and so the examiner has looked at the requirements for level 3 to see if the response is a closer match. It does demonstrate elements of knowledge but is limited in application. Although present, the chains of reasoning are limited and there is only some analysis of issues rather than any developed chains. The assessment is generic and only demonstrates a partial, rather than a full, understanding. Therefore, the response is good enough to reach level 3 but it does not meet the requirements to go beyond the bottom of the level descriptor.

Question 3

Evaluate whether the depreciation of the pound sterling (£) is likely to be the main reason for the increase in demand for British products between 2016 and 2017.
(20)

Mark scheme

Question Number	Indicative content
3	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • The exchange rate is the price of one currency in terms of another • Depreciation of the pound sterling (£) means it can buy less of another currency than previously; it has gone down in value • The pound sterling (£) depreciated to €1.19 and then €1.14 following the EU referendum in 2016 (from €1.40) • This meant that overseas customers could buy more pounds (£) with their own currencies, therefore making British goods cheaper to overseas buyers • When the currency is weaker, it can be easier to offer competitive prices to overseas customers who might not be able to buy the same goods or services, produced domestically, any cheaper • A survey has shown demand for British products increased for many small to medium-sized businesses between 2016 and 2017. This coincides with the timing of the EU referendum and subsequent depreciation of the pound (£) • If British products are cheaper to overseas buyers, they are likely to increase demand for them, thus potentially being the reason for the increase between 2016 and 2017 • However, the nature of the specific product on offer is also a factor. A product or service not commonly found in the target country's market, a unique or high-quality product is more likely to attract custom regardless of price • Positive perceptions of the quality of British products, a reputation for good customer service, and the familiarity of many British 'brands' such as the BBC, music artists and the Royal Family were all quoted as reasons British exports sell, to give examples of the above • We do not know if the British firms kept the prices constant following the depreciation of the pound (£). If they imported raw materials they may have increased prices to cover higher costs. • The survey was only conducted on small to medium-sized businesses and does not take into account of large businesses. This possibly means there has not been an increase overall in demand for British products during the period

		<ul style="list-style-type: none"> Other factors such as high inflation in the target country or rising costs of production could have contributed to overseas customers increasing demand for British products Overall it is likely a combination of the pound (£) depreciating and factors such as improved quality and the reputation of British brands led to the increase in demand for the British products shown.
Level	Mark	Descriptor
	0	No rewardable material.
1	1-4	<p>Isolated elements of knowledge and understanding.</p> <p>Weak or no relevant application of business examples.</p> <p>An argument may be attempted, but will be generic and fail to connect causes and/or consequences.</p>
2	5-8	<p>Elements of knowledge and understanding, which are applied to the business example.</p> <p>Arguments and chains of reasoning are presented but connections between causes and/or consequences are incomplete. Attempts to address the question.</p> <p>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.</p>
3	9-14	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question.</p> <p>Arguments are well developed.</p> <p>Quantitative and/or 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.</p>
4	15-20	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s).</p> <p>Arguments are fully developed.</p> <p>Quantitative and/or qualitative information is/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 recommendations.</p>

Examiner's comments:

Please note that for all levels of response questions, the indicative content is only that and many other possible chains of reasoning could be offered. This is stated in more detail at the top of the indicative content for each levels of response question.

Exemplar response A

Exchange rates are one currency in terms of another, and when the currency, in this case the pound sterling (£), depreciates it means the value of the £ falls for overseas customers.

Considering the drastic fall of the £ since July 2015, the likelihood of this being the main reason for the increase in demand for the British products overseas, ~~it~~ is very big. Since 2015 it has depreciated from 1.40 in euros (€) to €1.14 in 2017, which is nearly a fall by 20%. With a fallen value of the £ for countries with the €, exports from the UK has become significantly cheaper. They still get the same amount as before, but for less money. They pay less for the same amount, ~~at the same~~ although the UK businesses' revenue is not affected by this, making it a benefit for both parties. When the price has fallen for British goods, they ~~are~~ will become more attractive to overseas buyers and more sales will take place. In Extract E it states that 'The office for National Statistics reports that the UK exported £550bn in goods and services in 2016'. From 2015 to 2016 is when the £ depreciated the most,

over only one year, by exactly 15%. There is a clear correlation between these numbers, and it is therefore very likely that the depreciation of the £ is the cause of the increase in demand for UK goods.

However, there is likely to be many other external influences to play a part in this. Maybe prices in the foreign country has gone up and they are experiencing national inflation. The customers might therefore choose to buy their goods overseas instead because prices are lower. The type of good is also an important indicator. Maybe other countries have taken particular products off the market and consumers are therefore forced to buy them overseas in the UK, if it is a necessity.

On the other hand, a third factor is also likely to play in. It might be argued that simply the good quality of British products is the main reason for the increasing demand. UK goods have created a positive perception for their products, good quality, a reputation for good customer service and so on. This is very likely to have a positive effect on the demand for their products. Customers are willing to pay higher prices if the quality of the product is better than average, so even as exchange rates vary the demand will remain. As the quality is continuously improved

by British companies, they are likely to attract more and more customers to their business and increase their sales. The increase reported from 2016 to 2017 might therefore just as well be a result of improved quality and familiarity of UK goods and services. A positive perception is likely to attract many new customers as well as maintaining the ones they already have, so even if exchange rates were to appreciate, the demand would remain because buyers have become loyal to the business.

In the end, the depreciation of the £ is most likely the main reason for the increasing demand. It becomes cheaper for overseas customers and sales will therefore rise. If the £ were to appreciate for example, customers will most likely turn to national business instead to purchase their goods. So in the short run, exchange rates has a big effect on demand, whereas maybe in the long run, quality will be a more ~~important~~ important factor to UK companies.

Examiner's comments:

This response was given 18 marks.

A very good response, which was placed in the top level. Accurate and thorough knowledge is very well supported throughout by relevant and effective use of context from the extracts with well-developed and logical chains of reasoning. This presents well-developed arguments regarding why the depreciation of the pound sterling (£) is likely to be the main reason for the increase in demand for British products between 2016 and 2017. The assessment is balanced and contextualised, offering a variety of counter-arguments such as inflation, necessity and the quality of British goods, which all use and go much further than the information in the extracts. Further development of these points would have strengthened the response and, although a conclusion is presented, it is weak in comparison to the rest of the response, not adding to the factors already put forward. Therefore, the overall mark awarded was 18, which is the mid-point for a level 4 answer.

Exemplar response B

Depreciation is the fall in the value of one currency against another.

Extract F shows that exchange rate of £1 in euros (€) from 1st July 2015 at £1.40 has depreciated to £1.14 on 1st July 2017.

This could be a reason as depreciation would mean people from that use euros would find ^{British} products from ~~Britain~~ cheap and ~~buy~~ buy more, this increases demand.

Businesses ^{abroad} would find it more cheap to import ^{British} goods from ~~Britain~~ for raw materials for cost of production and as it is cheaper and demand would increase.

However this can't be the ~~only~~ main reasons there was an increase in demand for British products.

One reason could be consumer trends, changes in fashion and taste. This Extract E mentions ~~99.9%~~ many people buy British products due to many reasons, and ~~this~~ This could be due to the products being

in trend and having high demand.

Another reason demand increased for ~~business~~ British products could be quality, The Extract E mentions more people bought their products due to positive perceptions of quality, reputation and customer service. These are the needs and wants of customers and when they satisfied demand increases greatly.

Another reason for this increase in British products could be due to a good image / brand they have given to the economy. This shows customers that good customer service is offered and increases demand.

Population in the country could have increased in Britain. This would mean more consumption and spending and demand for domestic products increase.

There could be inflation in other countries that cause exports demand to increase in Britain for their products as it is cheaper.

Income in the country ^(Britain) could have increased this would mean more disposable income to spend and people would ~~want~~ demand more ~~from~~ British

Another reason demand could have increased could be because ~~price of goods from other countries~~ in price of substitute goods increased causing customers to use British products which are cheaper.

The British goods demand could have also increased due to a fall in interest rates in the country. This would mean more loans from businesses and individuals can be obtained which increases the ability to spend and businesses could want British products, ~~this is~~ for production or use, this increases demand.

Demand for British goods could also increase due to ~~export~~ de-regulations on imports. This would allow countries that have de-regulation of imports to increase in demand for British products.

However it depends on the size of depreciation as if it has depreciated largely it will have ~~an~~ a large effect of demand.

It also depends on the ^{British} products, if they are ~~inelastic~~ elastic, ~~demand~~ ^{and depreciation} ~~with~~ is high, demand will highly increase.

Examiner's comments:**This response was given 12 marks.**

Knowledge and understanding of depreciation and the exchange rate is presented and there is some effective use of the extracts, although not throughout the response. Partly developed chains of reasoning are used in the data presented, showing an understanding of the question and therefore a partial match to the level 3 descriptor. A number of competing arguments are presented but they are not well developed and there is only a partial awareness in the validity of these. The conclusion offers a flawed aspect regarding the size of depreciation, and the comment regarding elasticity is not supported. Overall therefore, this response most closely matches the level 3 descriptor. It does not fully meet all the requirements though and stays at the mid-point of 12 marks rather than reaching the top of the level.

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