

INTERNATIONAL ADVANCED LEVEL

BUSINESS

GETTING STARTED GUIDE

Pearson Edexcel International Advanced Subsidiary in Business (XBS11)

Pearson Edexcel International Advanced Level in Business (YBS11)

First teaching September 2018

First examination from January 2019

First certification from August 2019 (International Advanced Subsidiary) and August 2020 (International Advanced Level)



International Advanced Level Business Getting Started Guide

Contents

1. Introduction	2
1.1 Key principles.....	2
1.2 Support for the new specification	3
2. Qualification overview	4
2.1 Changes to specification	4
2.2 Changes to assessment	5
3. Planning	7
3.1 Planning and delivering the course.....	7
4. Content guidance.....	8
5. Assessment guidance	52
5.1 IAS assessment.....	52
5.2 IAL assessment	52
6. Transferable skills	54
6.1 Why transferable skills?.....	54
6.2 Defining transferable skills	54

Getting Started Guide for Teachers

1. Introduction

This Getting Started Guide will give you an overview of the International Advanced Level (IAL) in Business qualification and what it means for you and your students. This guidance is intended to help you plan the course in outline and give you further insight into the principles behind the content to help you and your students succeed.

1.1 Key principles

The specification has been developed with the following key principles:

Clear specification

Clear guidance on what students need to learn, providing clarity for planning, teaching and assessment. A review of other curricula and qualifications was undertaken to ensure that it is comparable with those taken in high-performing jurisdictions internationally. Key stakeholders were consulted on content and assessment, including higher education academics, teachers and employers to ensure this qualification is suitable for an international context

Progression, not repetition

The specification allows the development of understanding while at the same time avoiding repetition, ensuring students are engaged and thereby inspired to develop their knowledge.

Reflect today's global world

The International Advanced Level in Business specification develops an understanding of current developments in Business.

Clear assessments

Clear and consistent use of command words across assessments and between series. Our approach to assessments, definitions for the command words and details of how the command words are explained can be found in the glossary.

Clear mark schemes

The new mark schemes provide a consistent understanding of the skills, and connections between these skills, required for each question type. Clear wording reflects how teachers and examiners describe the qualities of student work, so the expectations are clear for teachers and markers.

Skills for progression

The variety of content that will be found in the examination allows the student to demonstrate knowledge as well as its application, which are required elements for further study or progression into employment.

1.2 Support for the new specification

Our package of support to help you plan and implement the new specification includes:

Getting Ready to Teach events – We will provide Getting Ready to Teach events, delivered by subject specialists, ahead of the first teaching in September 2018. This training event will outline all the requirements for teaching and learning in the new specification to support teachers to deliver their teaching with confidence.

Planning – In this guide, we have provided a course planner that you can adapt to suit your department.

Teaching and learning – To support you in delivering the new specification, we will be providing suggested resource lists and suggested activities.

Understanding the standard – Sample Assessment Materials will be provided.

Tracking learner progress – Results Plus provides the most detailed analysis available of your students' exam performance. It can help you identify topics and skills where students could benefit from further learning.

Subject Advisor service – Our subject advisor service, and online community will ensure you receive help and guidance from us as well as enabling you to share ideas and information with each other. You can sign up to receive e-newsletters from the subject advisor to keep up to date with qualification updates, and product and service news.

Our subject advisor, Colin Leith, can be contacted with any questions in the following ways:

- E-mail: TeachingBusiness@pearson.com
- Phone: Intl: + 44 (0)20 7010 2182

Centres may find it beneficial to review this document in conjunction with:

- International Advanced Level Business Sample Assessment Material
- Assessment Objective descriptors in International Advanced Level Business specification (page 39)
- Quantitative skills descriptors (where applicable) in Appendix 7 of the specification International Advanced Level Business (page 57)
- Taxonomy (command words) descriptors in Appendix 6 of the specification International Advanced Level Business (page 56)
- Levels Based Mark Band guidance (available in the Sample Assessment Materials)

2. Qualification overview

This section provides an overview of the course to help you see what you will need to teach. The overview gives a general summary of each of the examined papers.

2.1 Changes to specification

Pearson Edexcel International Advanced Subsidiary in Business

This qualification consists of two externally-examined units. The International Advanced Subsidiary is the first half of the International Advanced Level qualification and consists of two IAS units, Units 1 and 2. This qualification may be awarded as a discrete qualification or may contribute 50 per cent towards the International Advanced Level qualification.

Pearson Edexcel International Advanced Level in Business

This qualification consists of four externally-examined units. The International Advanced Level consists of the two IAS units (Units 1 and 2) plus two IA2 units (Units 3 and 4). Students wishing to take the International Advanced Level must, therefore, complete all four units.

The chart below provides an overview of the course. The IAL Business is structured into four units with four externally assessed examinations.

<p>Unit 1: Marketing and people</p> <p>1.3.1 Meeting customer needs 1.3.2 The market 1.3.3 Marketing mix and strategy 1.3.4 Managing people 1.3.5 Entrepreneurs and leaders</p>	<p>Unit 2: Managing business activities</p> <p>2.3.1 Planning a business and raising finance 2.3.2 Financial planning 2.3.3 Managing finance 2.3.4 Resource management 2.3.5 External influences</p>
<p>Unit 3: Business decisions and strategy</p> <p>3.3.1 Business objectives and strategy 3.3.2 Business growth 3.3.3 Decision-making techniques 3.3.4 Influences on business decisions 3.3.5 Assessing competitiveness 3.3.6 Managing change</p>	<p>Unit 4: Global business</p> <p>4.3.1 Globalisation 4.3.2 Global markets and business expansion 4.3.3 Global marketing 4.3.4 Global industries and companies (multinational corporations)</p>

2.2 Changes to assessment

The International AS and A Level Business Assessment Objectives have been revised. The objectives have been made more explicit to exemplify the skills developed through the International AS and A Level Business specifications

Changes to Assessment objectives

The Assessment Objectives and weightings are as follows:

Assessment Objective		Weighting
AO1	Demonstrate knowledge and understanding of terms, concepts, theories, methods and models	IAS: 27.5% IA2: 20% IAL: 23%
AO2	Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues	IAS: 25% IA2: 22.5% IAL: 23.8%
AO3	Analyse business issues, showing an understanding of the causes, costs and consequences for individuals and organisations	IAS: 27.5% IA2: 30% IAL: 28.8%
AO4	Evaluate evidence to make informed judgements and propose evidence-based solutions to business issues	IAS: 20% IA2: 27.5% IAL: 23.8%

NB: Totals have been rounded up or down.

A detailed breakdown of the Assessment Objectives can be found on page 39 in the specification which shows the Assessment Objectives at Unit level.

Assessment requirements

The Pearson Edexcel International Advanced Subsidiary in Business consists of two externally-examined units.

The Pearson Edexcel International Advanced Level in Business consists of four externally-examined units.

Students must complete all assessments.

Please see the Assessment availability and first award section for information on when the assessment for each unit will be available (page 40 of specification).

Unit	IAS or IA2	Assessment Information	Marks and length of examination
Unit 1: Marketing and people	IAS	<p>Section A: Short- and extended-response questions based on sources (30 marks)</p> <p>Section B: Short- and extended-response questions based on sources (30 marks)</p> <p>Section C: One 20-mark essay question, based on one or more sources (20 marks)</p>	80 marks 2 hours
Unit 2: Managing business activities	IAS	Same as Unit 1	80 marks 2 hours
Unit 3: Business decisions and strategy	IA2	<p>Section A: Short- and extended-response questions based on sources (40 marks)</p> <p>Section B: One essay question, based on one or more sources (20 marks)</p> <p>Section C: One essay question, based on one or more sources (20 marks)</p>	80 marks 2 hours
Unit 4: Global business	IA2	Same as Unit 3	80 marks 2 hours

3. Planning

3.1 Planning and delivering the course

The IAL in Business qualification can be taught and assessed as either:

- distinct modules of teaching and learning with related units of assessment taken at appropriate stages during the course; or
- a linear course, that's is assessed in its entirety at the end

One of the first decisions that centres will have to make is whether they intend to offer a sequential or thematic approach. A modular A Level will offer a more flexible approach as topics can be selected in an order that meets the needs of the students.

With all examinations available in January, June and October, there is flexibility for unit delivery and teaching.

3.2 Suggested resources

To support the teaching and learning of the new specification, we have suggested resources within the Scheme of Work*.

**All weblinks have been checked as active at publication, however the nature of online resources is that they can be removed or replaced by webhosting services and so it cannot be guaranteed that these sites will remain available throughout the lifetime of the qualification.*

Developed for the new International Advanced Level specification, the following resources have been specifically designed for international students, with a strong focus on progression, recognition and transferable skills, allowing learning in a local context to a global standard.

[Pearson Edexcel International Advanced Level Business Student Book and ActiveBook 1](#)

ISBN: 9781292239170

[Pearson Edexcel International Advanced Level Business Student Book and Activebook 2](#)

ISBN: 9781292239163

4. Content guidance

This section provides ideas and suggestions for teaching approaches and is not intended to be prescriptive. The specification must be referred to as the authoritative source of information.

Unit 1: Marketing and people

1.3.1 Meeting customer needs

Markets are made up of buyers and sellers. Successful businesses will be part of a markets that differ in size and character and are affected by change. Within markets, customers have needs and wants. Needs such as water are unavoidable. Wants are different in the sense that the consumer will have some choice about them. So, a successful product or service, and therefore business, will most likely benefit from effective market research to enable the business to provide consumers with the choices that meet their needs and wants. Furthermore, a successful business will position itself in a market in such a way as to ensure effective sales in what may be a very competitive environment.

1. The market

- a. The difference between mass and niche markets should be considered, and students should be able to give examples, such as general sportswear shops in contrast to specialist surfing shops; what being in a different type of market could mean in terms of market size and market share; and how brands can influence the position of a business within its market.
- b. The advantages and disadvantages of online retailing to both consumers and businesses should be explored. Markets that are subject to change — because of changes in consumer tastes, such as confectionery and electrical products, or changes in technology — could be compared with static product markets, such as for staple food products like eggs and milk. The growth of online retailing, with the increased significance of companies like Amazon, iTunes and ASOS, has led to dramatic changes in the market. Students could explore how companies like video streaming businesses such as Netflix's and book sellers such as Waterstones have responded to these changes.
- c. Competition occurs when two or more businesses act independently to supply goods and services to the same group of consumers. Competition can be direct or indirect. Direct competition is when businesses produce similar products that appeal to the same group of consumers. Indirect competition occurs when different businesses make or sell products that are not in direct competition but compete for the same consumer expenditure; for example, a shop selling DVDs might be competing with the local cinema. Competition from other businesses will typically affect decision making in terms of the nature of ownership, the nature of the product/service offered and product range, pricing policies and marketing methods. Students could consider how an independent grocer may respond to the arrival of a local branch of a supermarket chain such as Tesco Metro, or how an independent hairdresser might respond to the promotional offers of a franchise hairdresser such as Toni & Guy.

1. The market (continued)

- d. Risk is something that can be planned for – probabilities of outcomes are known or at least understood or considered. In this way, risk taking is a conscious decision. Uncertainty in business is caused by unexpected often external factors outside of the business's control, even though these factors can sometimes be predictable. For example, changes in the environment such as the Hurricane Irma in 2017 are sources of uncertainty. Another example is the unexpected changes in UK government policy resulting from the BREXIT Referendum which occurred in June 2016.

2. Market research

- a. Primary market research data refers to obtaining data first hand by the business to match the specific needs of the business. Examples include surveys, observations, interviews, test marketing and focus groups/consumer panels. Secondary sources include market reports (such as MINTEL), government data (such as ONS), internet sources and trade publications like The Grocer. Quantitative data is numerical and can be analysed statistically. Effective market research will link the quantitative with qualitative findings to help build a picture of likely customer preferences and behaviour, enabling a business to identify and anticipate customer needs and wants. Effective market research will: help to reduce risk; understand consumer behaviour and quantify potential consumer demand; understand how much consumers are prepared to pay; identify competitors and how they operate; and the key features of the business environment (PESTLE factors – links with Unit 3).
- b. The advantages and disadvantages of primary research based on cost and accuracy should be explored to determine which might be best, given the size of the business, the market and the business context. A range of primary market research methods should be examined and which would be the most appropriate in different business scenarios.
- c. Students should consider how ICT can be used to support market research and the advantages and limitations to the business of websites, social networking, such as Facebook and Twitter, and the nature of business databases, such as [Experian](#).
- d. Students should explore sample and sampling size and consider sampling methods such as random, quota and stratified. Students should also consider how bias occurs; for example, interviewer bias, bias questions or respondent bias. Students will not need to carry out quantitative sampling methods but be aware of the appropriateness and disadvantages for a range of businesses.

3. Market positioning

- a. Product orientation is when a business prioritises a product's design quality or performance rather than meeting customer preferences to guide production and marketing decisions. Apple iPhones, Gillette's disposable razor blades and the Sony Walkman are useful examples of product orientation. The Audi car company and 'Chosen by You' range of ASDA groceries are useful examples of market-orientated products.
- b. Market mapping refers to evaluating business ideas and products/services by setting out the features of a market or product on a diagram. Each axis represents two polar features; for example: high quality versus lower quality; mass versus niche market; modern versus traditional; functional versus aesthetic. Market mapping can be used to identify a gap in the market or to reposition a product. Students should consider the value of market mapping to start-ups and existing businesses launching a new product/service. Examples of different businesses, such as Burberry, could be used or asking students to map different brands of cars onto a grid. This allows students to see where there are gaps in the marketplace or where fierce competition exists within market segments.
- c. Market segmentation is the division of a market into groups, each of which has distinctive customer preferences. Common groupings include age, gender, income, hobbies/interests, location, ethnic origin/culture, occupation and lifestyle. This can be linked to the market mapping exercises previously done. A consideration of the advantages and disadvantages of market segmentation can be explored in terms of cost and effectiveness for different businesses.
- d. Students should be aware of ways in which companies gain an advantage over their competitors in a market, such as through price, adding value, innovation, reliability, quality, reputation/image, advertising/marketing and branding, convenience and customer service. Examples of different businesses, such as Dyson, could be used.
- e. Product differentiation can be used as a route to provide a competitive advantage and refers to how a business might distinguish its product/service from competitors given its distinctive features or through marketing in a different way to emphasise a unique selling point (USP). For example, Green & Black's chocolate is made with both Fair Trade cocoa and sugar and other ingredients.
- f. Added value is the difference between the price that is charged and the total cost of the inputs required to create the product/service. It might be achieved through improving the product/service itself or improving the way consumers perceive the product/service. There are lots of examples of businesses that add value through numerous ways and get students to identify the main added value in some often-bought products such as food, clothing, mobile phones and travel.

1.3.2 The market

This section focuses on the interaction between buyers (consumers) and sellers (producers) and explores the factors that affect demand and supply, determining price levels and sales. The sensitivity of demand to price changes and changes in income provide opportunities for demonstrating quantitative skills.

1. Demand

- a. The effective demand (desire backed by readiness to pay at a particular price) for products and services is determined by more than price, but also a range of other factors: the nature, availability and price of competitors' products and alternative brands; prices of complementary products; the level of, and any changes to, consumer income; trends in consumer fashion, tastes and preferences; advertising and branding to inform, influence or encourage demand and enable repeat purchases (consumer loyalty); population structure; external shocks, such as threat of terrorism, war, disease and health scares; the time of year and holiday periods, the weather and climate.

2. Supply

- a. Supply refers to the amount a producer is able to provide for a specific price. Supply is determined by price as this incentivises businesses to supply more in anticipation of higher profits. There are many significant factors leading to a change in supply, such as: the costs of production, which may push prices up, and reduce potential sales and profits so a business may simply reduce output; the introduction of new technology may mean costs and prices may fall; indirect taxes such as a rise in VAT may increase prices and therefore reduce supply; government subsidies, by enabling costs of production to fall, should lead to a rise in supply; external shocks, such as poor weather conditions, typhoons, drought and war, tend to reduce crop yields or the availability of products such as oil or commodities, which can lead to reductions in supply and therefore lead to an increase in prices.

3. Markets

- a. The interaction between buyers and sellers should provide an equilibrium price in a market where demand and supply are equal (market clearing price). Where supply exceeds demand (surplus) this is often due to too high a price; where demand exceeds supply (shortage) this is because of low prices.
- b. Students are required to draw demand and supply (market) diagrams to demonstrate the interaction between supply and demand to give an equilibrium price and level of sales/output and be able to demonstrate:
 - a rise in demand — shift of the demand curve to the right — which leaves a shortage at current price, so that price will rise and the equilibrium quantity will increase
 - a fall in demand — shift of the demand curve to the left — which leaves a surplus at current price, so that price will fall and the equilibrium quantity will decrease
 - a rise in supply — shift of the supply curve to the right — which leaves a surplus at current price, so that price will fall and the equilibrium quantity will increase
 - a fall in supply — shift of the supply curve to the left — which leaves a shortage at current price, so that price will rise and the equilibrium quantity will decrease.

3. Markets (continued)

These changes will be linked to non-price factors considered within demand and supply. It is important for students to understand that a change in the price of the good leads to a movement along the demand or supply curve, not a shift in the demand or supply curve.

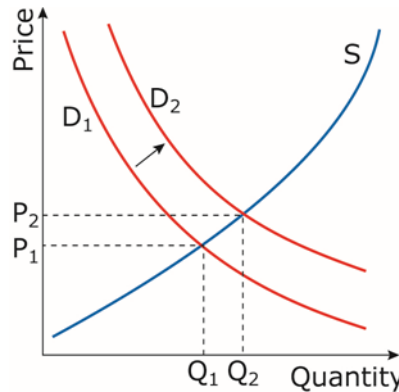


Diagram 1 shows a positive shift in demand which causes both prices and quantity bought and sold to rise. Revenue expands from $P_1 Q_1$ to $P_2 Q_2$.

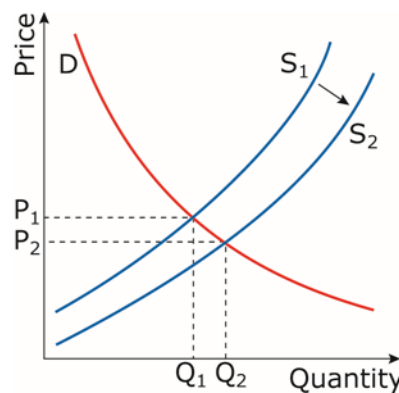


Diagram 2 shows a positive shift in supply which causes prices to fall from P_1 to P_2 and quantity bought and sold to rise from Q_1 to Q_2 . Revenue changes from $P_1 Q_1$ to $P_2 Q_2$.

4. Price elasticity of demand

- a. Students are required to calculate price elasticity of demand:

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

- b. Price elasticity of demand (PED) measures the responsiveness of demand to a change in price. A steep demand curve indicates a product with price inelastic demand, that is, demand for the product is not responsive to a change in price. A shallow demand curve shows a product that has price elastic demand, that is, demand is responsive to a change in price. Products with price inelastic demand tend to have few substitutes, are necessities, and/or can be addictive; for example, petrol and cigarettes. PED is always a negative number. A number which is between 0 and 1, i.e. a decimal, means demand is price inelastic. A number between 1 and ∞ means demand is price elastic.

4. Price elasticity of demand (continued)

- c. Factors that influence PED include the availability of substitutes, the frequency of purchase, the relative price/expense of a product, whether the product is a luxury or necessity and time.
- d. PED is an important tool in determining pricing strategy: lowering pricing policies (competitive pricing) are more likely where PED is elastic; setting a high price (skimming) is more likely where PED is inelastic.
- e. If PED is inelastic then a rise in price increases total revenue and a fall in price reduces total revenue; if PED is elastic then a rise in price reduces total revenue and a fall in price increases total revenue.

5. Income elasticity of demand

- a. Students are required to calculate income elasticity of demand:

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$$

- b. Income elasticity of demand (YED) measures the responsiveness of demand to a change in income.
- c. A positive number means the product is normal; a negative number means the product is inferior.
- d. Factors influencing YED include whether the product is a luxury, necessity or inferior good, and expectations of changes in income, such as loss of job, promotion, recession or economic growth.
- e. YED is an important tool in telling a business what their products/services should be in order to increase sales: if a business such as Poundland (a budget retail outlet in the UK that sells items for £1) specialises in inferior goods with negative YED, then sales can be high during periods when incomes are falling (recession). However, given a long-term trend for incomes to rise, this is not so good for producers of inferior goods. In this case, producers/sellers of inferior goods may diversify by increasing their range of products to include some with growing markets, such as ASDA providing the premium price and quality 'Extra Special' range of foods.

1.3.3 Marketing mix and strategy

In this topic, the appropriate nature of the marketing mix (the 4Ps – product, promotion, price and place) for new or existing products or services should be explored. Students should also consider how social trends may affect the marketing mix; the Boston Matrix, the product life cycle and its related sales extension strategies, with reference to product and promotional methods; and marketing strategies that relate to niche, mass, business to business (B2B) or business to consumer (B2C) marketing, and the benefits and limitations of these strategies.

1. Marketing objectives and strategy

- a. Marketing objectives are set by all businesses, large and small. The main marketing objectives include increasing market share, increasing revenue and building a brand. Many large multinational businesses state their marketing objectives in their annual report to shareholders and it would be interesting to get students to compare and to contrast different marketing objectives for different businesses e.g. Amazon v Hotel Chocolat.
- b. Students should explore the stages of the product life cycle – from development, to introduction, growth, maturity/saturation and decline – as well as the implications for cash flow and marketing of the product/service at each stage.

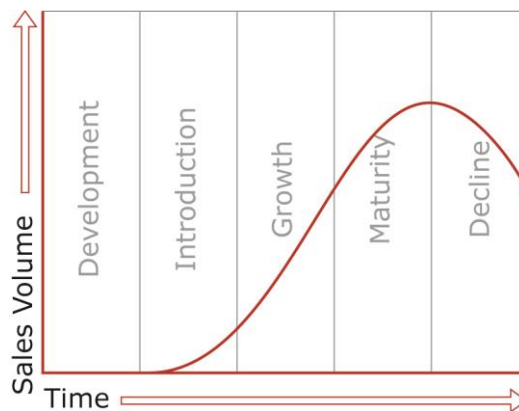


Diagram 3

This section covers the nature and purpose of product extension strategies such as product development/modifications, for example the Apple iPhone 5 to the iPhone 5s or 5c; and how promotional methods can be used to postpone the decline of sales, such as the Kellogg's rebranding and re-launch of its Nutri-Grain bar.

- c. Students should explore the Boston Matrix, be able to identify each category – cash cow, problem child/question mark, star and dog – and understand the implications for cash flow and marketing of the product/service in each category; for example, the rebranding of a 'dog' product or occasional discounting for cash cows.
- d. The Marketing Mix/ 4Ps – consisting of Product, Price, Place and Promotion and can be taught alongside of the Boston Matrix by getting students to identify the Marketing Mix for a business. It is important to note that for a successful marketing mix, the different 'P's much complement each other e.g. Product which is targeting high income groups needs to have a relatively high price, be of high quality and sold in an appropriate retail outlet.

1. Marketing objectives and strategy (continued)

- e. Marketing strategies vary depending on the type of market. Sellers in mass markets are more likely to make use of expensive national television advertising given affordability and lower average marketing costs; sellers in niche markets are more likely to focus on effective customer service and other ways to improve customer loyalty, such as understanding customers, introducing a loyalty scheme which offers discounts or targets repeat purchases and are proactive. An awareness of business to business (B2B) and business to consumer (B2C) marketing is required.
- f. Students should have an awareness of customer loyalty methods, such as effective customer service, loyalty cards and saver schemes. Tesco and Boots have their own loyalty cards which encourage repeat purchases and this has been extended into coffee shops such as Starbucks which has its own reward scheme.

2. Product/service design

- a. The Design Mix – consisting of function, aesthetics and cost/economic manufacture should be examined for a range of products to determine what is the most important feature e.g. a low-cost cola drink would focus more on the cost element of the design mix compared to a high fashion item of clothing which may focus more on the aesthetics element. Students could consider examples of standard or bespoke product or service designs that meet identified market needs, such as the Dyson bagless vacuum or a full wedding package, respectively.
- b. Examples of how different businesses adapt their design mix to reflect social trends should be explored here; for example, the efficiencies that can be achieved from changing the type of materials and technology used in making products. Toyota is replacing robots with skilled humans to ensure fewer defects, better quality and less waste. Muddy Boots Foods is ensuring traceability for its range of beef burgers by using known suppliers of beef and other ingredients. Starbucks is an example of a global brand that also makes use of ethical sourcing.

3. Promotion and branding

- a. Types of promotion include personal selling, direct marketing, advertising, public relations, sponsorship, sales promotions (such as buy one get one free, price discounts, money-off coupons, samples/giveaways, special events and point of sale) and digital communications (online advertising, mobile communications, advergames, social media, consumer-generated content and viral strategies). Students should explore the advantages and disadvantages of each type to businesses.
- b. Types of branding include manufacturer/corporate branding such as Nestlé, product branding such as KitKat and own brand product (usually supermarket) such as ASDA chocolate. Students should consider the advantages and disadvantages of each type of branding to the producer and consumer. Students should also explore rebranding – a marketing strategy in which a new name, term, symbol, design or combination is created for an established brand with the intention of developing a new, differentiated identity in the minds of consumers, investors, and/or competitors.

3. Branding and promotion (continued)

- c. Branding is a way to add value, therefore enabling higher prices to be charged, which can reduce PED to make price elasticity of demand less elastic or even inelastic; for example, McVitie's biscuits such as Hobnobs. Students could consider brandnames here, such as Hoover, Pritt Stick, Sellotape, Tarmac and Biro, Post-it Notes.
- d. Brands are strengthened through unique selling points (USPs) and product differentiation; for example, Häagen-Dazs ice cream using real dairy milk and cream, and a range of premium ingredients and flavours such as Strawberry Cheesecake or Baileys. Brands such as premium car companies like BMW can be built through advertising on national TV. Sponsorship can also be used; for example, the sponsorship of the FA Cup by Budweiser at £9m-a-year between 2010 and 2014. Students should also consider how social media, such as links and endorsements on Facebook, is used to build brands.
- e. Viral marketing includes video clips, interactive Flash games, advergames, ebooks, brandable software, images, text messages, email messages and web pages. Social media, such as Facebook, shows the sharing or exchange of information and ideas in virtual communities and networks. Emotional branding is the practice of building brands that appeal directly to a consumer's emotional state, needs and aspirations; for example, with clothing, alcohol, confectionery, cars and toiletries.

4. Pricing strategies

- a. and b. Students should know, understand and be able to apply/justify the most appropriate pricing strategy for a good or service. For example, in launching a new product with a strong brand identity, it may be appropriate to use a price skimming strategy in order to recover research and development costs; for example, Sony PlayStation 4 or the Apple iPhone 5c and 5s.
- c. Online sales by companies such as Tesco and Waitrose for ordering groceries and price comparison sites for services such as car insurance have created a climate of competitive pricing. Examples include 'Compare the Market' and 'mySupermarket'. Students can look at a range of comparison websites and identify the impact on the marketing mix from the ability of consumers to compare prices and products.

5. Distribution

- a. Students should be aware of the different types of distribution channel that exist:
 - Four stage – manufacturer/producer to wholesaler to retailer, then consumer. Examples include groceries and confectionery.
 - Three stage – manufacturer/producer to retailer, then consumer. Examples include electrical goods and cars.
 - Two stage (direct marketing, no intermediary levels) – manufacturer/producer to consumer. Examples include factory outlets and holiday companies that do not use travel agents.
- b. The choice of distribution channel used will depend on the nature of the product, the market, and the nature and size of the business. Many businesses use a wide range of distribution methods to maximize sales. Amazon not only have an online presence but have started to offer 'bricks and clicks' outlets for customers. Again, Tesco is a great example of a large retailer who uses a wide range of distribution outlets.

1.3.4 Managing people

In this section, the focus is on human resource issues, with consideration of how employees can be effectively recruited, deployed, developed and trained, motivated, managed and led.

1. Approaches to staffing

- a. Employees have skills and competencies that businesses should value. Staff can be considered as an asset since they contribute to the value of output, whether this is through providing added value to a product by supporting the manufacturing process or through effective customer service. Employees are more likely to be productive if the business invests in them. Employees are also a cost to businesses in terms of recruitment, training, remuneration, welfare and even severance. Students should consider the distinction between wages and salaries, and the implications of the national minimum wage for a business.
- b. Flexible working can mean workers being prepared to take on a range of different tasks within the business or production process as many employees will be multi-skilled. Employees could accept a range of employment patterns, including full-time and part-time or zero hours contracts, temporary as well as permanent jobs, or working flexitime or shift work. Businesses may also agree for employees to work from home. Students should consider the advantages and disadvantages of flexible working to employers and employees.
- c. Dismissal (referred to informally as firing or sacking) is the termination of employment by an employer against the will of the employee. Employees are made redundant when a business needs to reduce the size of its workforce or even close. Redundancy can be voluntary.
- d. Individual approaches to employer/employee relationships refer to when a single worker negotiates their working conditions and pay with management. Collective bargaining refers to the negotiation between employees and workforce representatives; for example, this could be through a trade union such as UNISON. Trade unions act to protect and improve the economic and working conditions for their members.

2. Recruitment, selection and training

- a. The recruitment process includes the application, interview and other selection procedures, such as assessment days and in-tray exercises. Students should consider whether businesses should recruit for positive attitude and/or for skills, and the distinction between job specification and job description. Students should consider internal v external recruitment for the business.
- b. Recruitment costs businesses money; for example, advertising, expenses, agency fees and staff appointing. Students should explore the significance of labour turnover rates to a business's recruitment and training costs, and the effectiveness of training.
- c. Induction is the familiarisation with the company and its background, policies, health and safety procedures. Students should also understand what is meant by on-the-job and off-the-job training, and the benefits and drawbacks of each approach to a business.

3. Organisational design

- a. Students should consider how a business might organise the number of staff they have recruited in order to implement business ideas and achieve objectives, and how such a structure may affect the management and effectiveness of operations and communications.
- b. Different types of structures such as tall, flat and matrix and the pros and cons of each of them.
- c. Features of each of these structures can be examined and the eventual impact on efficiency and employee motivation considered. E.g. compare small family business such as Heck Foods to a large multinational such as McDonalds.

4. Motivation in theory and practice

- a. Motivated employees are often more productive, reliable and loyal, and labour turnover rates should be considered with staff motivation.
- b. Students should explore the significance of motivation theories to help explain why different businesses have different staff benefits and how businesses meet the range of needs, such as 'well done boards' and appraisals for Maslow's esteem needs. Additional examples can be used to explore a variety of motivational theories and different perspectives. Students should compare the different motivational theorists (Taylor, Mayo, Maslow and Herzberg).
- c. and d. The effectiveness and significance of financial and non-financial incentives to improve staff performance can vary between workers and different types of job and business. This should be explored alongside motivation theories. Students should also consider the processes and techniques of how managers can get the best out of their staff, often to improve productivity or motivate. This should again be linked to motivation theories.

5. Leadership

- a. Students should explore the distinction between management and leadership. Leadership is about having a vision, sharing that vision with others and providing direction. Management is the day-to-day organisation of the business, including staffing.
- b. Students should explore types of leadership style and how each might be more appropriate according to circumstances, nature and size of the business.
- c. Students should consider the difficulties in moving from an entrepreneur to a leader. These might include the need to delegate, trust and verify, learning to listen, have an open mind, be less reactive and develop emotional intelligence.

1.3.5 Entrepreneurs and leaders

This topic focuses on how people set up and succeed in operating their own business and the constraints they might face in doing so. Students will also consider the people skills and personal qualities that entrepreneurs will most likely need to succeed; what drives people to set up their own business; business objectives; and the various forms of business ownership and the choices which typically face owners of a business.

1. Role of an entrepreneur

- a. Being aware of the role of an entrepreneur is fundamental and students should be familiar with how people set up and create their own businesses.
- b. Students should also explore what it takes to run, expand and develop a business.
- c. Students should consider the entrepreneurial qualities employers in larger organisations might demonstrate; for example, creative, imaginative and innovative employees, self-confident sales managers and bonuses to staff who provide innovative ideas.
- d. Barriers to entrepreneurship include: entrepreneurial capacity, access to finance, lack of training/know how and fear of failure/lack of confidence.
- e. Risk and uncertainty was introduced in 1.3.1. Risk is something an entrepreneur can essentially plan for. Probabilities of outcomes are known or at least understood or considered. Risk taking is a conscious decision and, typically, the greater the risk the greater the reward in business. For example, if an entrepreneur decides to develop a niche product/service business without any form of market research or test marketing (product orientation) then this would be considered riskier yet could be more profitable as a result as competition is less likely. The classic example of risk, of course, is when someone initially decides to set up a business but cannot be sure they will earn as much income for themselves as a sole trader or partner than they may have done from regular employment. For example, an experienced teacher may decide to retire early from his or her job at a school to risk his/her regular income from a salary to become an education consultant in the hope of receiving a similar or greater income from fees. Another example when in employment is that taking a salaried job guarantees a fixed, regular income whereas commissioned based work involves risking that known regular income, since such remuneration depends on output or hours worked, for greater reward.

Uncertainty in business is caused by unexpected, often external, factors outside of the entrepreneur's control even though they are sometimes predictable. Changes in the environment are sources of uncertainty – such as the Tsunami in Japan in March 2011 – as are economic factors. For example, commodity price shocks, changes in interest or exchange rates, health scares, the arrival of competitors, political factors, and changes in local or national legislation. Unlike risk, uncertainty is not objective and does not assume complete knowledge of alternatives. Students could consider a wide range of examples here; for example, how did the historically relatively poor performance of Manchester United affect fast food business profits or merchandise profits in the 2013-2014 football season?

2. Entrepreneurial motives and characteristics

- a. Entrepreneurial characteristics include: creativity, hardworking, resilience, initiative, self-confidence and risk taking. Skills might include: communication, team working, problem-solving, organisation, numeracy and information technology. Students could look at a range of famous entrepreneurs such as the Dragons from Dragons' Den to compare and to contrast the personal qualities they have.
- b. Reasons why people set up businesses include: independence, work-life balance, flexibility, more income, ethical reasons, social purpose and challenge. Duncan Goose set up One Water as response to his experience travelling the world and the major issue of lack of drinking water around the world. Innocent Drinks are also a good case study for students as they give 10% of their profits to charity.

3. Business objectives

- a. and b. Profit maximisation is generally the aim of most businesses in order to provide the capital needed for expansion and growth — or even survival — to enable the replacement of machinery or equipment which has been subject to depreciation. In the short term, survival through effective cash flow management is more important than gaining an income or seeking profit maximisation.
- c. In order to support profit maximisation, given that total revenue minus total cost equals profits, it is often necessary to support this aim with goals such as sales maximisation/an increase market share; cost efficiencies to ensure costs are at their lowest; and employee welfare and customer satisfaction to ensure that production and sales are at their most effective.

4. Business choices

- a. Opportunity cost is the value of the next best alternative foregone. Students can look at this very important concept from many different angles – personal decision-making to business decisions.
- b. A trade-off occurs when two things cannot be fully achieved; having more of one thing may mean having less of another. These concepts could be studied with respect to business decisions regarding the choice of, for example: product, market research, business ownership, promotional methods, pricing strategy and quality.

Unit 2: Managing business activities

2.3.1 Planning a business and raising finance

Students are expected to understand the distinction between internal and external sources of finance and be able to ascertain which sources of finance are suitable for different situations and different types of business organisation.

For example, a sole trader would not be able to access share capital because of the legal status of the organisation. Equally, a start-up business would not be able to sell assets or use retained profit, since the business has only just come into existence. Students should be able to assess which source(s) of finance are most applicable to any given situation and explain the reasons behind their selection. More often than not there will be a range or blend of sources of finance that the student could choose; for example, purchasing raw materials could be financed by trade credit or an overdraft, but is unlikely to be funded via a bank loan. Students should be able to articulate advantages and disadvantages of various methods and sources of finance.

1. Planning

- a. and b. Students are not required to know the format of a business plan and will not be asked to produce a business plan. Students will need to know what a business plan is, and its role in reducing risk to bank or potential investors, allowing the business access to a wider range of methods/sources of finance. This could result in a lower interest rate (if a loan was being applied for) or a reduced percentage of total shares in issue being given to a venture capitalist.

2. Internal finance

- a. Personal savings would be an appropriate source of finance for a sole trader or partnership. The amount of finance that can be raised from this method is dependent on the personal savings of the owner.
- b. Retained profit would be available to all types of business so long as the business is profitable and has not recently started up. Usually, retained profit is insufficient on its own to allow a business to expand.
- c. Asset sales can be used by all businesses, so long as they are not a start-up business (since the business will have no assets). Students may question whether a business which is efficiently run will have any surplus assets to sell and whether asset sales will generate sufficient finance for the business to pursue its objectives.

3. External finance

- a. Students should be able to distinguish between sources of finance and methods of finance. For example, a business angel may provide venture capital for a business or crowd funding could also be a potential source of venture capital. Students should be able to understand the advantages and disadvantages of various sources and methods of finance.
- b. Students should be able to identify possible sources of finance for a business depending on a range of scenarios and be able to explain the reasons behind the source or sources of finance which they have chosen. Students also need to be able to select methods of finance that are appropriate to a given situation and business organisation. For example, a company would not use share capital to fund the short-term purchase of raw materials.

4. Forms of business

- a. Businesses that start out as independent sole traders often expand and develop into other business forms. This transformation is determined by the business owner, the product, the nature and size of the market, and the level of profitability.
- b. Students should also be familiar with the growing trend in the setting up lifestyle businesses as people demand flexibility and a work–life balance. Students should also consider expansion through franchises (such as McDonalds), social enterprises (such as The Big Issue) and online businesses (such as Alibaba).
- c. Students should explore growth to public limited companies (plc) and stock market flotation to secure more finance, share risks and extend decision making.

5. Liability

- a. Students are expected to understand unlimited and limited liability and be able to recognise which types of business organisation limited and unlimited liability applies to. Limited liability significantly reduces the risk faced by the shareholders (owners) which, in turn, will allow the business to raise more finance.
- b. Students should be able to recognise which sources of finance are applicable to companies and sole trader/partnerships. Students are not expected to know what a limited liability partnership (LLP) is. This section of the specification could be taught alongside internal and external finance.

2.3.2 Financial planning

This topic is linked to 2.3.1 in that financial planning is one method that helps to reduce the risk of business failure. In turn, this helps to increase the range of methods/sources of finance that the business can gain access to and helps to minimise the disadvantages of accessing those sources of finance, (for example, lower interest rates on a bank loan).

1. Sales, revenue and costs

- a. Students are required to calculate sales volume and sales revenue:

$$\text{sales volume} = \frac{\text{sales revenue}}{\text{sales price}}$$

$$\text{sales revenue} = \text{selling price} \times \text{sales volume}$$

- b. Students need to be able to identify the difference between fixed and variable costs and be able to identify which costs are fixed and which costs are variable. Fixed costs should include annual interest on a bank loan, which can be calculated by applying an interest rate to the size of a given loan; e.g. £10,000 loan at 10% per annum (p.a.) gives an interest cost of £1000 p.a. Students may be given variable costs per unit (average variable costs, AVC) and be required to calculate the total variable cost by multiplying the AVC by the quantity produced.
- c. Ways to improve sales volume and sales revenue should be examined and this section can be linked back to Unit 1 and marketing methods e.g. changes to the marketing mix, pricing strategies and product design as to ways in which businesses try to increase sales volumes and revenue from their marketing activities.

2. Sales forecasting

- a. Calculations are not required in 2.3.2; quantitative sales forecasting is covered in 3.3.3. The importance of sales forecasts should be linked to cash flow in 2.3.4. Sales forecasting will allow the business to decide whether it needs to increase productive capacity and employ more workers in the future. Alternatively, sales forecasting could be used to ascertain when a business should start promotional activity.
- b. Students need to know how consumer trends, economic variables and actions of competitors could cause sales forecasts to increase or decrease. Students could be given a business scenario and then have to decide which factors could cause sales to increase or decrease and the reasons why. With the UK economy in the recovery phase of the economic cycle, businesses such as Poundland or Aldi could be used to illustrate how changes in economic variables could cause sales to fall.
- c. Although the risk of producing inaccurate forecasts can be reduced, forecasts are not guaranteed and businesses operating in dynamic markets will find it significantly more difficult to forecast accurately beyond a very short period of time in the future. Students can look at a range of businesses to identify factors which may affect the accuracy of sales forecasts e.g. impact of Ryanair cancelling many of its flights in September 2017 due to a lack of pilots.

3. Break-even

- a. Students may be required to calculate the contribution generated from selling a good or service from either a break-even chart or from numerical data.

$$\text{contribution} = \text{selling price} - \text{variable cost per unit}$$

- b. The break-even point is where total costs are the same as total revenue. Students should be able to identify the break-even level of output on a break-even diagram, but they will not be required to draw a break-even chart.
- c. To calculate the break-even point using contribution:
- $$\frac{\text{total fixed costs}}{\text{contribution per unit}}$$
- d. The margin of safety is the difference between the actual level of output and the break-even level of output. It shows by how much output can fall before the business reverts back to the break-even level of output.
- e. Students could be provided with a pre-drawn break-even chart and be asked to use this information to identify revenues, fixed and variable costs, profits and losses at specified levels of output.
- f. The break-even model has a number of limitations that reduce its use in the real world. These limitations include the assumptions of the model being too unrealistic and the fact that it is only really useful for a business that makes a single product.

4. Cash Flow

- a. Students will not be asked to produce a graph of cash flow over time, but could be asked to complete a part completed cash flow table and calculate any missing figures. Alternatively, a student may be given a diagram or table of figures and they will need to interpret the cash flow implications to the business.
- b. Students need to be able to identify the use and limitations of cash-flow forecasts in many different scenarios.

5. Budgets

- a. The purpose of budgeting as a planning, forecasting, communication and motivational tool should be considered here.
- b. Students are required to understand the difference between historical budgeting (using current financial figures) and zero-based budgeting (using figures based on potential performance).
- c. Students should be able to perform a basic variance analysis on a set of figures by comparing budgets with actual figures to identify positive (favourable) and negative (adverse) variances.
- d. Students need to consider the difficulties of historic and zero-based budgeting techniques and the need for budgets to be realistic and flexible enough to cope with changing circumstances.

2.3.3 Managing finance

This topic considers the different ways in which profit can be measured and the distinction between cash and profit. Students should be familiar with statements of comprehensive income and statements of financial position. There are links in this topic to 3.3.5.

1. Profit

- a. The distinction between gross profit, operating profit and profit for the year (net profit) should be considered. Students are expected to calculate gross, operating and profit for the year using information from a company's statement of comprehensive income. The following formulae should be used:

$$\text{gross profit} = \text{revenue} - \text{costs of sales}$$

$$\text{operating profit} = \text{gross profit} - \text{other operating expenses}$$

$$\text{profit for the year} = \text{operating profit} - \text{interest}$$

Appendix 9 on page 60 of the specification provides a summary of the required accounting ratios.

- b. Ways in which to increase profits can again be linked back to Unit 1 from either a marketing or cost approach and students must be able to evaluate the different ways in which a business can increase its profits.
- c. To measure profitability, students will be required to calculate the gross profit margin, operating profit margin and the profit for the year (net profit) margin. Students will need to be able to extract information from a statement of comprehensive income or a table.

$$\text{gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100$$

$$\text{operating profit margin} = \frac{\text{operating profit}}{\text{revenue}} \times 100$$

$$\text{profit for the year (net profit) margin} = \frac{\text{profit for the year}}{\text{revenue}} \times 100$$

Students should interpret, draw comparisons and comment on what the calculated figures for these profitability ratios mean for a given business. Students will not be expected to compile their own statement of comprehensive income. Students should consider the ways in which the business could improve its profitability using methods that will either increase revenue or decrease costs.

Students should consider the distinction between cash and profit, in that profit is recorded straight away after a sale, whereas cash inflows and outflows will be recorded after the respective debtor and creditor periods have elapsed, allowing the profit to be realised in cash terms. Students will be expected to understand the importance of cash flow in preventing a business from failing. Following on from the cash flow exercise in 2.3.2, students could re-run a cash flow table considering debtor and creditor periods to examine the cash flow implications of accepting orders and to highlight the difference between cash and profit.

2. Liquidity

- a. Students should understand the difference between cash and profit and why each is important for the survival of the business.
- b. Students should understand what a statement of financial position (balance sheet) shows and be able to use it to calculate the liquidity position of a given business. They will need to be able to extract the information from the statement of financial position and calculate the current and acid test ratios, using the following formulae:

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{acid test ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

Students will not be expected to compile a statement of financial position, but will be expected to know what the components of the statement of financial position mean. They should be able to calculate and interpret liquidity ratios for different businesses and explain ways in which cash flow/liquidity in a business could be improved such as by the use of factoring, supplier credit terms and other methods listed in the specification.

- c. Students should know the cycle of working capital and why cash is important to the business. Different businesses can operate successfully with different cash flow requirements.

3. Business failure

- a. and b. Potential causes of business failure that stem from inside the business include poor efficiency, marketing and failure to innovate. External factors might include economic recession and a strengthening pound, reducing export demand. The causes of failure can then be further sub-divided into financial and non-financial factors, such as poor communication and bad management of working capital. Students should be able to explain the different causes of business failure and recognise that some causes of failure are more important than others for certain businesses. Students could research the causes of failure for two different businesses, such as Modelzone and Blockbuster.

2.3.4 Resource management

This sub-unit focuses on methods of allowing the business to operate at maximum efficiency to minimise the average total cost of production. It also considers different inventory control techniques with a view point towards maximising the use of the business's resources. Quality is also considered as this should not fall as a consequence of improved efficiency.

1. Production, productivity and efficiency

- a. Students should be aware of the difference between different methods of production (job, batch, flow and cell) and the reasons why a product may be produced using different methods.
- b. Productivity is defined as output per input (person or machine) per hour. This is not to be confused with production, which is the total amount of output produced in a time period. Students should be able to recognise and explain factors that will lead to improved productivity within a business, the potential drawbacks of some of the methods and understand the link between productivity and competitiveness.
- c. and d. Efficiency is maximised when units of output are produced at minimum unit or average total cost. Students will need to be able to explain reasons as to how labour intensive production is where labour is primarily used to produce the good or service and capital-intensive production is where machines are primarily used to produce the good or service.
- e. Competitive advantage from short product lead-in times can be examined by looking at dynamic markets such as the fashion industry e.g. Zara produce clothing with very fast lead-in times, often only 3 weeks, which keeps them ahead of other high street rivals. Business could improve its efficiency.

2. Capacity utilisation

- a. Students should be able to calculate capacity utilisation as a percentage of maximum possible output. If a factory currently produces 40,000 units but has a maximum capacity of 100,000 units, its capacity utilisation can be calculated as follows:

$$\frac{40\,000 \times 100}{100\,000} = 40\%$$

- b. Implications of under-capacity utilisation include higher fixed costs per unit, under-motivated staff, a negative brand image (for example, empty seats in a restaurant). However, there could also be some benefits in that there is sufficient space for the factory to meet new orders and maintenance and repair of machines can be scheduled more easily. Problems of over-utilisation of capacity include increased overtime costs, mistakes in production, the inability to schedule machine maintenance and the inability to accept new orders.
- c. Capacity utilisation can be improved through factors such as competitors exiting the market, balancing seasonal demand and improved marketing.

3. Inventory control

- a. Students will not be required to draw a stock control diagram, but may be asked to calculate figures and describe what the stock control diagram is showing. For example, students might be asked to calculate the size of specific orders, identify the re-order level of stock, identify the level of buffer stock and calculate the length of time stock takes to arrive after re-ordering. In this example, the stock that arrived in week 8 took 5 weeks to arrive as the re-order level of stock was reached in week 3. The order that arrived in week 8 comprised 75 units (95-25 units).

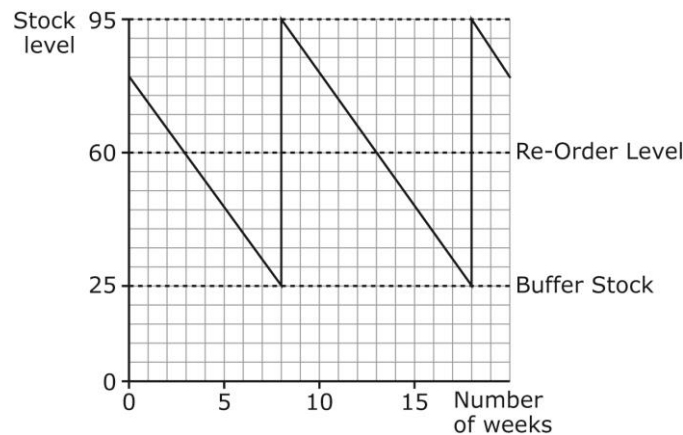


Diagram 4

- b. Students should be able to explain the advantages and disadvantages of holding buffer stocks for different businesses in different markets.
- c. The stock-in and stock-out costs that result from poor stock control for different businesses that operate in different markets should be considered here.
- d. Students should understand what just in time (JIT) management is and the advantages and disadvantages of JIT. Students should explore the different types of business that might be suited to a JIT stock management system and appreciate the link between JIT and waste minimisation and lean management.
- e. Waste minimisation will help improve efficiency and reduce the unit costs of production.
- f. Students should know what is meant by lean production, how lean production can be achieved and the benefits of achieving it. This concept is linked to those in points d. and e. above.

4. Quality management

There is considerable cross-over in this section with the above section as JIT, lean production and waste minimisation could be deemed to be examples of continuous improvement.

- a. Students need to know the distinction between quality control and quality assurance and the purpose of quality circles.
- b. Total Quality Management (TQM) is part of an organisation's culture where quality is at the centre of everything that an organisation does. Students should recognise the importance of quality in allowing a business to succeed and that the importance of this will differ from business to business.
- c. Students should recognise the importance of continuous improvement (Kaizen) in a business and ways in which a culture of continuous improvement can be stimulated.
- d. Quality refers to how well a product does what it is intended to do. In a competitive business environment, businesses compete by offering products or services that are different and/or superior to their rivals in ways that matter to customers. Quality is an important factor in gaining a competitive advantage as it is associated with consistency. For example, a satisfied customer may be more likely to repeat purchase from the business if they believe the products are of a high quality. Furthermore, customers who value quality may be willing to pay more for the product or service.

2.3.5 External influences

This topic requires students to consider the impacts of the economy and legislation on a business. Students are not required to have an in-depth understanding of legislation, but should focus on the effect new laws may have on the business.

1. Economic influences

- a. Students should explore the positive and negative impacts of economic change on businesses and recognise that different businesses will be impacted in differing magnitudes. Students are not expected to know the causes of any economic change(s). Macroeconomic and microeconomic uncertainty can affect the business environment. For example, how might a shortage of agricultural products such as wheat or cocoa caused by crop disease or drought affect the supply and price of bread or chocolate? Students should be able to examine the impact of changes in a wide range of economic influences ranging from exchange rates to the impact of the business cycle.

2. Legislation

- a. Students are expected to know the effects of government legislation on a business. There is no requirement for an in-depth understanding of any specific policy; for example, students would be expected to know that competition policy could restrict the ability for a business to grow organically as opposed to a detailed list of the elements that make up UK/EU competition law. A growth area (and one which can be linked to Unit 4) is the use of IP to protect copyright and patents and one which has many examples (Dyson, Samsung and Apple) which students can use to examine the impact on businesses.

3. The competitive environment

- a. The competitive environment was introduced in Unit 1. Competition from other businesses will typically impact on business decision making in terms of the nature of ownership, the nature of the product/service and product range, pricing policies and marketing methods. Students could also consider how an independent grocer may respond to arrival of a local branch of a supermarket chain such as Tesco Metro, or how an independent hairdresser might respond to the promotional offers of a franchise hairdresser such as Toni & Guy.
- b. Market size is essentially the number of buyers/consumers and sellers/producers in a particular market. This is especially important for businesses that wish to launch a new product or service, since small markets are less likely to be able to support a high volume of goods. Large markets could bring in more competition. There is an opportunity here for students to recognise the significance of sales volume and rate of sales turnover to a business's success. Successful entrepreneurs do their research to understand target markets, identify a customer base and weigh up the competition; for example, James Dyson and his bladeless fan in 2008.

Unit 3: Business decisions and strategy

3.3.1 Business objectives and strategy

Business objectives are what a business hopes to achieve, and business strategy is what a business does to achieve these objectives. Students should consider the difference between a generalised aim and mission and a more specific SMART objective, and should engage with published business documents, such as company accounts, that should help to illuminate this process. Considering different stakeholder views when reviewing mission statements is a useful first step in critically assessing them.

Students should explore a range of analytical tools and theories and understand the uses and limitations of these for businesses developing a corporate strategy.

1. Corporate objectives

- a. Students should explore the hierarchy of business objectives, starting with mission statements and general aims, proceeding through corporate objectives to departmental/functional objectives. An understanding of SMART objectives is also required.
- b. Students should critically appraise the nature of mission statements and aims, and could consider the following:
 - What is their purpose?
 - Who is the intended audience?
 - How does the corporate strategy followed by the business compare to the mission in reality?

The uses and limitations of mission statements should also be considered here as well as different stakeholder perspectives: who is the mission statement aimed at and how does the strategy affect different groups?

2. Theories of corporate strategy

- a. Students should explore the key features of Ansoff's Matrix and Porter's Strategic Matrix (generic strategies), apply these strategies to business examples of corporate strategy, and make assessments of these based on Ansoff's and Porter's Matrices. Students should also evaluate the uses and limitations of Ansoff and Porter to the development of corporate strategy.
- b. Students should explore the key features of the Boston Matrix (Boston Box) product portfolio analysis, and assess its uses and limitations in relation to business examples and applications to corporate strategy.
- c. Students should be able to distinguish between strategic and tactical decisions in a business context. Strategy is more long term and relates to achieving an overall goal; tactics are shorter-term actions that help to achieve the strategy. Consideration of the impact of these should focus on the impact on human (recruitment, training, redundancy, etc.); physical (investment in fixed assets, location, etc.) and financial (sources of finance, etc.) resources. Students should be able to make judgements as to whether decisions are strategic or tactical and whether the distinction is useful in business.

3. SWOT analysis

- a. SWOT analysis should be applied to a range of business examples, covering businesses of different sizes, with different objectives and operating in different sectors. This will enable students to gain a good overview of the differing nature of each aspect in different situations; for example, a micro start-up business compared with a large multinational. Students should consider how SWOT analysis can be used to make strategic and/or tactical decisions to achieve corporate objectives. Strengths and weaknesses encompass aspects of the business functions that they can directly influence, such as people, marketing, finance and operations. Opportunities and threats relate to the external environment which can only be reacted to – this section could be taught with PESTLE in 3.3.4.4

4. Impact of external influences

- a. PESTLE analysis can be discussed as an extension to SWOT analysis. Students should consider each aspect and focus on its impact on business activity rather than its origin.
- b. The focus on the changing competitive environment should emphasise the nature of dynamism within PESTLE and Porter's Five Forces. Students should focus on the external nature of change in this section.
- c. Porter's Five Forces model should not be confused with Porter's Strategic Matrix in 3.3.2.2. Students should use this to analyse how a wider range of factors than simply competitors affect the environment in which businesses operate. Porter's explanation of his original model and an update can be explored

3.3.2 Business growth

Students should explore how and why (and in some cases why not) businesses achieve growth. A starting point is how business size can be measured and, in turn, how growth can be measured. Different business case studies can be explored; for example, Marks and Spencer and its origins as a sole trader owned by Michael Marks, to its current position as a large multinational Public Limited Company.

1. Growth

- a. Simple calculations could be completed when exploring economies of scale to demonstrate how average costs can fall as total output increases in a business. Achievement of this gives businesses the opportunity to increase profit margins and/or reduce prices. The objective to 'increase market power over customers and suppliers' can be linked back to Porter's Five Forces in 3.1.1.4 and the objective to 'increase market share' can be exemplified by researching UK supermarkets and their quest to gain market share. This growth objective can be introduced as a short- to medium-term objective that feeds into the long-term objective of increased profitability. Profitability should be clearly distinguished from simply increased profits and this can be achieved with reference back to total costs and economies of scale. A Venn diagram approach could be used here, with students identifying the similarities and differences between profit and profitability. Mergers and takeovers can also be linked to the discussion of analytical frameworks, such as tactical and strategic decisions. Tactical reasons for takeovers include an attempt to ensure increased market share and access to technology, staff, or intellectual property. Strategic motives might include access to new markets, improved distribution networks or improved brand awareness.
- b. The distinction should be made between organic and inorganic growth and briefly introduce the difference between these methods of growth.

2. Organic growth

- a. Unlike inorganic growth, organic growth does not involve another business taking over or merging with it. Organic growth can be achieved through, for example: new product launches; opening new stores/branches; expanding into foreign markets; and expansion of the workforce. Ansoff's Matrix (3.3.1.2) could be revisited here, with students exploring examples of market development, product development and diversification.
- b. Advantages of organic growth include: less expense in the short term; less risky due to an increased level of control of the variables; maintaining existing management and culture; and the ability to plan for and effectively control growth. Disadvantages include that it is often slow and can limit a business's ability to react to the growth of competitors, with growth being limited as a result; for example, funds may be limited to internal growth of sales revenues.

3. Inorganic growth

- a. Case studies can be used to exemplify how inorganic growth can be in the form of a merger where two or more businesses agree to join to form a new business; for example, BA merging with Iberia to become IAG. Takeovers usually involve one business taking control of another business following a buyout of their shares. The target business is then usually absorbed into the operations of the business that initiated the purchase; for example, Kraft's takeover of Cadbury. A diagrammatic approach can be helpful when considering horizontal and vertical integration — drawing a chain of production from primary, through secondary, to tertiary sectors with different business examples in each — showing how

different businesses joining at different stages can be categorised as horizontal (same sector) or vertical (different sector). Financial risks can include the original purchase cost and the costs of adjusting the new business, such as redundancies of staff holding duplicate roles. Financial rewards can include immediate increased revenue from the new business and economies of scale leading to reduced costs.

- b. An over-arching theme to this section is the comparison and contrast between the stated aims of a merger or takeover and the actual results. These are often very different and can be due to a range of issues, such as clashes in corporate culture that were not originally foreseen or considered in enough depth by key stakeholders in the beginning

4. Problems arising from growth

- a. to c. Problems of rapid growth include diseconomies of scale resulting from communication problems and the loss of strategic direction and focus on core competency that can result from the joining of two or more previously separate businesses. Diseconomies of scale can be explored through simple numerical examples of average cost increasing for a business beyond a certain level of output. Graphical representation using long-run average cost curves is useful for developing quantitative skills. The problems of growth can be analysed with reference to case studies, particularly those relating to businesses choosing to reduce their size. Overtrading is more commonly associated with new businesses and can be explored in lessons with reference to local, growing businesses.

3.3.3 Decision-making techniques

This topic explores how businesses can use quantitative decision-making tools in order to increase the accuracy of their predictions and provide an element of predictability. Each method will involve a degree of calculation and interpretation of these results – the key is the business application of this information and the inherent limitations of each technique. Students should consider the limitations of the techniques and the assumptions on which each are based. Key questions for each could include the following:

- What is the purpose of this decision-making technique?
- What is the quantitative information that results and how might a business use it?
- What increases the accuracy of the results? For example, has this business made similar forecasts in the past? Have these been accurate?
- What assumptions is the method based on?
- How much of the information is based on estimates and how can a business aim to improve the accuracy of these estimates?
- What qualitative issues will impact on the decision and how can a business consider these?

1. Quantitative sales forecasting

- a. The calculation of three-period and four-quarter moving averages and interpretation of these is required.
- b. This will include the calculation of cyclical and average variations and the use of these to extrapolate into the future, using line of best fit and the completion of graphs showing trend data. Time-series analysis can be used in a range of business concepts from sales forecasting to the estimation of future costs, such as energy usage. Students will be expected to make a limited number of calculations, but should be able to interpret these in a business context; for example, taking some previous sales data and making a forecast based on past trends.
- c. The limitations of this approach can be summarised as: 'past performance is no guarantee of the future'. Businesses need to appreciate the additional factors (both internal and external) that can affect future predictions. Discussions here could be linked back to the SWOT/PESTLE sections (3.2.1).

2. Investment appraisal

This section involves the traditional calculation methods of the following investment appraisal techniques:

- a. Simple payback.
- b. Average (Accounting) Rate of Return.
- c. Discounted Cash Flow (Net Present Value only).

Students could be given a prediction of future cash flows, along with appropriate discount factors and, where appropriate, alternative investments that the business could choose to invest in.

- d. Students should be able to explain what the results of their calculations show: for example, does a higher or lower figure make the investment attractive? What should this figure be compared with?
- e. Students will also need to appreciate both the general limitations of investment appraisal — for example, it is based on future cash flow forecasts that are themselves predictions — and limitations of the individual techniques themselves.

3. Decision trees

- a. Decision trees have many business uses; for example, the probability of success in a choice of product launch, different marketing campaigns, or a decision to relocate. Wherever there is uncertainty, but probabilities can be estimated, there is a role for decision trees. The emphasis is on the interpretation of simple decision trees and being familiar with their key features: decision nodes; chance nodes; probabilities and expected monetary values. Where construction is required, this will be in simple terms, with the range of probabilities limited. Key things to remind students include the importance of subtracting the initial investment costs from the expected monetary rewards.
- b. Students should be able to complete calculations to determine the expected monetary rewards for different options. Interpretation of these calculations then stems from which option is best, while considering the initial investment costs and the probabilities of success. The big question with this technique is how the probabilities and estimates of returns are arrived at by the business in question. There is a large degree of uncertainty about any situation that a decision tree might be used for, so the benefits of adding this degree of quantitative certainty can be fundamentally questioned.
- c. As with all decision-making techniques, the degree of usefulness will vary with the business context. Students should be encouraged to explore a range of examples of decisions where this might be an appropriate tool, and those where it is definitely not, giving reasons for this assessment.

4. Critical Path Analysis

- a. Critical Path Analysis has a range of uses, from the more common examples, such as building projects, to other examples such as the completion of a marketing launch. Students should be familiar with a range of possible uses. Students should understand Critical Path Analysis and its role in scheduling a range of activities that make up a project. Its purpose is to plan projects in a way that limits the use of limited resources and enables a project to be completed in the shortest time possible.
- b. Students are not required to construct critical path diagrams from scratch – the emphasis is on completing a semi-complete network and showing an understanding of what this shows a business in terms of its resource management.
- c. The key areas for interpretation are the identification of the critical path and what this means for the business in question, along with total float. Calculations of Earliest Start Time and Latest Finish Times will be expected both in terms of completing semi-completed network diagrams and also calculating these based on a completed diagram.
- d. The limitations of Critical Path Analysis can be explored from two perspectives:
 - The assumptions and estimates on which the technique is based – for example, the length of time needed for each activity, whether the next activity can actually start on time, etc.
 - The qualitative factors that the technique cannot account for – for example, the impact of the weather for large-scale building projects.

3.3.4 Influences on business decisions

Following the focus on quantitative techniques, this section explores the qualitative factors that have a major influence on the direction businesses take – as such, the focus of this section is on the ‘human element’ of business decision making. This section should be explored in terms of the underlying motives that can frame a business’s strategy and inform decision making. There is clear cross-over with other sections of Unit 3; for example, objectives and strategy, analytical frameworks and decision-making techniques.

1 Corporate culture

- a. to d. Students should explore what it is that makes a culture ‘strong’ or ‘weak’. This might include a focus on core values and the recruitment and training of staff, as well as the history of the business and the role of its founders.

The classification of corporate culture can help students gain a greater understanding of this concept. The use and exploration of business case studies provide a good basis for exploring how corporate culture is formed and difficulties in changing an established culture. Students could consider the following:

- Would you categorise the culture as strong or weak?
- Which of the four classifications would you put this example in? What evidence do you have for this?
- Why do you think this business has such a culture? From where does it originate? Do the founders of the business still work there? Are they key decision-makers?
- Has the culture always been as it is? What changes have occurred? How did the changes happen?

The formation of corporate culture depends on many factors that are unique to each business and its history. Some of the key factors include: the role of the founders and owners – are they still involved in key decisions, are they ‘visible’ to other workers?; the nature of the business and the products and services it sells; the degree to which these have changed over time; the business environment into which the business was born (this could be linked to PESTLE analysis); the recruitment and promotion process of key staff; working hours; and attitude to customer service.

This section can be linked to strong and weak cultures. Strong cultures are particularly difficult to change, but the nature of what constitutes culture makes it very difficult to adapt any organisation. This is because an organisation’s culture comprises an interlocking set of goals, roles, processes, values, communications practices, attitudes and assumptions. This interlocking means that each component reinforces the other. Changes, such as those to management systems, customer service policies, or quality systems, can soon be drawn back into the existing organisational culture.

Large organisations often have sub-cultures in different areas of the business. Examples include: managers, part-time staff, sales assistants and delivery drivers.

Recent examples of businesses where cultural change has been difficult include Kodak, Nokia, London Underground, and previously, Marks and Spencer.

2. Stakeholder model versus shareholder model

- a. The analysis of stakeholders is important from several perspectives:
 - Who are they?
 - Are they internal or external?
 - What is their power?
 - What is their interest?
 - How do they influence corporate objectives?
 - Are their influences positive or negative?
 - Do stakeholder influences conflict with those of the business's owners?
- b. The focus should be on what the stakeholders' objectives are and what influences these. The key question is: do these objectives conflict with, or complement, those of the business overall? Stakeholder 'mapping' is a useful tool for students to use.
- c. and d. Stakeholder influences and the potential for conflict between shareholders and stakeholders could be taught together: shareholder perspectives tend to focus on the achievement of profit, while the stakeholder approach might focus on wider ethical considerations. There are lots of cases studies to show this area of conflict.

3. Business ethics

There is considerable cross-over in this section with 3.3.3, which discusses stakeholders and corporate culture. Students should be encouraged to make these links across the theme, particularly in relation to a specific context/case study.

- a. Business ethics considers the moral 'rights and wrongs' of a decision. The main focus here is on the strategic level, rather than the decisions made by, for example, individual employees. The concept of a trade-off is an important one here, implying that, in some circumstances, it is not possible for a business's strategy to be both profitable and ethical, or at least ethical dimensions may have to be sacrificed.
- b. The topic has a specific focus on the issue of pay and rewards in relation to ethics. Topical issues should be introduced here; for example, the difference between executive pay levels and those of employees could be explored and debated.
- c. Corporate Social Responsibility (CSR) is now an established aspect of many business strategies. Its key features can be explored through the assessment of this section in business accounts. Students could collate this information and compare it to other declarations, such as the mission statement. Students should consider the strengths and weaknesses of an approach that focuses on CSR.

3.3.5 Assessing competitiveness

Students should explore published financial information and make assessments of a business's competitiveness based on this. The construction of financial documents (statement of income or statement of financial position) is not required but students should understand the main features of each and the interpretation of changes in these from year-to-year and from business to business.

An over-arching concept to this section is the stakeholder approach and which groups will be interested in different aspects of a business's performance. Concepts such as profitability, liquidity and solvency are important in analysing a business's financial position with more accuracy.

The section on human resource measurements can also be explored from a range of perspectives. Students should be encouraged to carry out the calculations as outlines, interpret these at face-value, but then look beyond these to explore underlying issues for different businesses and contexts. For example: the labour turnover figure suggests one thing, but how much of this is due to the business itself, and how much is it to do with external factors beyond the business's immediate control?

Once more, there is an opportunity to revisit and apply SWOT and PESTLE analysis to the results of these calculations. Students could consider which factors affecting the performance in financial statements or human resource competitiveness can be controlled, and which ones only reacted to.

1. Interpretation of financial statements

- a. Students should understand what the main features of a statement of comprehensive income represent. For example, what turnover, cost of sales and gross profit mean and what can affect these. A 'top-down approach' is often useful, with students gaining an understanding of what the business 'begins with' and what it 'ends up with' – the bottom line.

The interests of stakeholders can be revisited and applied here. The perspective can be looking at the whole document and learning about the business's profitability – something owners or potential investors might want to do – or it could be focusing on specific sections; for example, expenses might be particularly interesting for managers and workers, particularly if labour costs make up a large part of these expenses.

- b. A similar approach can be taken with the statement of financial position – students should understand what this information shows about a business, something that is much more abstract for this document than it is for the income statement. In simple terms, it is the 'worth of a business on a given day' – a snapshot. It shows whether a business can pay its bills on time, its financial flexibility to acquire capital and its ability to distribute cash in the form of dividends to the company's owners. Liquidity and solvency should be discussed as concepts and also applied to specific figures in given financial information.

2. Ratio analysis

a. The ratios in this section should be covered in addition to revisiting those in Unit 2. The ratios are detailed in Appendix 9 of the specification (on page 60 of the A level specification).

b. Gearing measures the proportion of a business that is financed from long-term borrowing. These lenders are often banks and therefore expect an interest payment in addition to the repayment of the original loan amount. A higher gearing ratio indicates a greater vulnerability to interest rate changes.

The difference between a highly geared business (ratio over 50%) and a low geared business (below 50%) should be considered. Students should also be encouraged to try to find out why funds have been borrowed; for example, borrowing to purchase assets in order to expand may be seen as less of a problem than borrowing to finance current expenditure or cover cash flow problems.

Students should consider the business decisions that can be informed by these ratios, such as the following:

- How should we finance expansion?
- What are the costs and benefits of financing through borrowing compared with doing so through further equity release?
- Are stakeholders securing an acceptable return on their investments? Are alternative investments more attractive?

c. The limitations of ratios should also be considered in this section:

- They are only as useful as the financial documents on which they are based; for example, a statement of financial position is a 'snapshot' and therefore subject to change.
- Ratios need to be compared over a long time period to gain an understanding of trends.
- Comparison with competitors is needed to put the figures into industry context and understand which factors the business can control and which ones may be affecting all businesses.

3. Human resources

- a. When interpreting labour productivity, labour turnover and retention, and absenteeism, students can determine, for example, that a high labour turnover suggests a large number of staff are leaving a business, possibly because it is not a good place to work.
- b. However, after these literal interpretations, wider issues should be considered. For example, is the type of business one where people naturally only work there for a few months/years due to the age profile of workers? Students can draw on their own experiences if relevant; for example, they may work in retail or the wider service sector before moving on to employment/training elsewhere.
- c. Businesses need to understand as much as possible about the underlying causes of changes in these measures if they are to be able to 'make decisions' based on these. These decisions might include: changing recruitment methods and policies, new training, a different approach to pay and rewards, etc. If the information on which these decisions are based is not scrutinised and, importantly, the staff involved are not questioned, then the resulting decisions are less likely to be the best ones for the business. An overview of what each human resource strategy is and their intended purpose is required but specialist detail of different strategies is not a requirement.

3.3.6 Managing change

This topic explores how change can be implemented and the factors that influence its likely success. Making business decisions is one thing, but ensuring the desired outcomes for these decisions is another. This section draws together the concepts introduced throughout the theme.

The distinction between internal and external factors is a useful framework, linking back to SWOT analysis and some of the other analytical frameworks. Students should understand the qualitative factors that will impact on business decision making. Management of change theories (for example, Kotter) are not a requirement but could be included within the teaching and learning.

1. Key factors in change

- a. to e. Students should explore the factors that influence the origin, nature of and reaction to change in a business. The concepts here have been covered in detail in the rest of the Unit and students should analyse the possible impact they could have on how and why businesses change. The causes of change are broad, but students do not need to investigate these beyond applying concepts from elsewhere in general terms – the focus of the section is how these changes impact on a business and so what issues they raise for managing the change:

Change	How this might manifest itself	Issues for managers to address
Changes in organisational size	The business expands into a new international location	<ul style="list-style-type: none"> • communication • performance management • training • motivation • labour costs • impact on business culture
Poor business performance	This will vary between businesses but might include: <ul style="list-style-type: none"> • poor sales figures • lower profits than expected • increased costs of operations • slower expansion than planned 	<ul style="list-style-type: none"> • how to improve performance • resistance to change • changing objectives and/or strategy
New ownership	<ul style="list-style-type: none"> • merger • takeover • development from Ltd to PLC • management buy-out 	<ul style="list-style-type: none"> • role duplication • culture clash • brand management • methods of communication

1. Key factors in change (continued)

Change	How this might manifest itself	• Issues for managers to address
Transformational leadership (see below)	Change in leadership personnel and/or ethos	<ul style="list-style-type: none"> • resistance to change
The market and other external factors (PESTLE)	<ul style="list-style-type: none"> • new entrants to the market • completion leaving the market (link back to Porter's Five Forces model) 	<ul style="list-style-type: none"> • corporate objectives change • new strategy • increased research and development • brand strategy adjustment

Students are not required to learn lots of new concepts beyond new key terms in this section. The aim is for them to apply the key causes of change identified in the rest of the theme and course to the concept of change itself.

Transformational leadership is a different concept because the driver of change comes from the management, rather than the management dealing with other reasons for change. However, it is often the case that a transformational leader will develop their role, or be put in place as a wider reaction from the key stakeholders in a business to the need for change.

2. Contingency planning

- a. Contingency planning is the process of anticipating possible changes in a business's situation and devising ways of dealing with them. Complex numerical risk assessment techniques are not required here, but the technique of comparing probability with potential financial impact, as used in decision trees, is useful.
- b. There are degrees of risk mitigation and these depend on specific contextual influences and the overall attitude of decision-makers in the business:
 - Risk acceptance – where the full cost of mitigation is greater than the cost of the risk itself. This is often the case for small businesses.
 - Risk avoidance – this is the opposite of risk acceptance. It could involve ceasing to follow a particular action altogether; for example, a multinational pulling out of an unstable country.
 - Risk limitation – this is the most common risk management strategy used by businesses. An example of risk limitation is a company accepting that data storage may fail and avoiding a long period of failure by having back-ups.
 - Risk transference – this is the involvement of handing risk off to a willing third party. For example, numerous companies outsource operations such as customer service, payroll services, etc.

Business continuity may take the form of identifying alternative locations if struck by a natural disaster or providing a range of data back-up in the event of IT systems failure. Succession planning may be incorporated as part of HR strategy and could involve making use of work-shadowing and staff appraisals to share experiences and train staff in a range of business areas (job rotation and job enrichment), so that staff can step in if colleagues leave.

Unit 4: Global business

4.3.1 Globalisation

In this topic students should understand that the majority of businesses no longer view their markets to be purely domestic. Globalisation has created significant opportunities for businesses to sell their goods and services overseas. However, at the same time, this has led to significant increases in global competition in world markets.

This topic explores the reasons why globalisation has occurred and the reasons why some countries may want to limit its spread.

1. Growing economies

- a. Students will not be expected to state the growth rate of any specific country but should understand how the growth rate of emerging economies compares with the UK.
- b. Students could consider the BRICS and MINT economies. BRICS economies are: Brazil, Russia, India, China and South Africa. MINT economies are: Mexico, Indonesia, Nigeria and Turkey. The emerging economies with increasing average incomes suggest that the middle classes are increasing. This provides these economies with increasing market power over traditional western economies. Increased demand for western goods and services in these markets is likely to result in significant increases in profitability.
- c. Demand in emerging economies is likely to be income elastic, providing significant opportunities for increased revenues and profit. Equally, low labour costs and proximity to a market that is growing in size has led to more firms deciding to outsource production/customer service facilities to locations such as China and India. This has had implications for employment in the UK in certain, but not all, industries.
- d. Students should be able to recognise indicators of economic growth and interpret what the indicators of growth are telling them about a given country. There is no requirement to know how to calculate Gross Domestic Product (GDP) per capita or Human Development Index (HDI) but students do need to understand what the data from these indicators is telling them about an economy and its standard of living.

2. International trade and business growth

- a. Students should recognise the distinction between imports and exports.
- b. Students are not required to understand the theory of comparative advantage, but should understand what specialisation is and how it results in greater efficiency. This allows for goods and services to be produced at a lower unit cost, which then allows a business to reduce its prices or increase its profit margin.
- c. Students are required to know what foreign direct investment (FDI) is and how it allows a business to grow.

3. Factors contributing to increased globalisation

- a. Students are expected to know what trade liberalisation is, and how it makes markets more competitive and creates more opportunities for businesses. Students should also be able to articulate the benefits and drawbacks of the trade liberalisation process.
- b. to i. Students are expected to know how all of these factors — political change, reduced cost of transport and communication, increased significance of global companies, increased investment flows, migration, growth of the global labour force and structural change — have led to increased globalisation of markets and the impacts on businesses resulting from these factors.

For example, larger ships and containerisation have significantly reduced transportation costs, therefore allowing production overseas to become competitive compared with domestically produced goods and services.

4. Protectionism

- a. In this section students are expected to know why a country may impose tariffs and the possible advantages and disadvantages of doing so should also be considered.
- b. Students are expected to know what a tariff is, how it works and the impact of a tariff on a business's ability to sell overseas.
- c. Students should explore what an import quota is, how it works and the impact of an import quota on a business's ability to sell overseas. Students need to know why a country may impose import quotas and the possible advantages and disadvantages of doing so.
- d. Other trade barriers, namely government legislation and domestic subsidies, should be explored. Students are expected to know how non-tariff barriers restrict trade and the impact they will have on a business's ability to sell overseas.
- e. Students should understand why a country may impose trade barriers and the possible advantages and disadvantages of doing so to businesses.

5. Trading blocs

- a. Students should recognise the link between trade liberalisation and trading blocs. When a country joins a trading bloc, this makes it easier for the businesses located with the trading bloc to sell to that country. Students need to understand the opportunities and drawbacks of selling goods and services to a country within an expanding trading bloc. The EU is the European Union, ASEAN is the Association of South East Asian Nations and NAFTA is the North American Free Trade Area.
- b. Students are not expected to have an in-depth understanding of specific trading blocs, but should focus on the opportunities and drawbacks for a business that is either located within a trading bloc member country or is wishing to sell to a market within a given trading bloc from a country which is not a member of the trading bloc.

4.3.2 Global markets and business expansion

This section considers the reasons why businesses based in more affluent countries such as the UK may want to sell their goods and services in overseas markets and/or relocate overseas. This section builds on topic 4.3.1 since it explores the opportunities faced by businesses from the increasing globalisation of markets.

1. Conditions that prompt trade

- a. There are some factors that force businesses to consider selling abroad, such as high levels of domestic competition and a saturated market which offers only low growth opportunities. These are push factors.
- b. There are significant opportunities for businesses selling to overseas markets, such as the ability to spread risk and the ability to gain the benefits of global economies of scale. These are pull factors.
- c. Students should understand the difference between off-shoring and outsourcing and the benefits and drawbacks of both of them to a business. Off-shoring is the relocation of a business function, usually manufacturing or customer services, to a location overseas. Outsourcing is where a business function is contracted out to a third party. The third-party organisation may or may not be located overseas.
- d. Products can be in different stages of the product life cycle depending on a given country; for example, a product in the decline phase in the UK can be in the growth phase in emerging markets. Students should explore the reasons for this.

2. Assessment of a country as a market

- a. Students should be able to identify factors that will make some countries more attractive as a market than others. For example, poor infrastructure in a country could decrease the ability to deliver goods at a low cost or on time, reducing the attractiveness of that market. There are a whole host of considerations in the specification which students can look at as to why a MNC has located in a particular country.
- b. Application of Porter's five forces in assessing potential markets can be also used and links back to Unit 3.

3. Assessment of a country as a production location

- a. Students should be able to recognise factors that make one country more/less attractive as a production location compared with other countries. Students should be able to make judgements between which factors are more important given the nature of the business, the product it sells and the market it operates in. As an activity, students could be given information on a variety of different countries and be asked in groups to decide which country is the best production location for a particular product or service. Some could be straightforward, such as extractive industries, whereas others could be more debatable, such as overseas customer support (call) centres.

4. Reasons for global mergers, takeovers or joint ventures

- a. to j. The reasons why mergers/joint ventures occur and the rationale behind them should be explored in this section. Students should be able to make judgements as to the most important reasons why a merger/joint venture has occurred and articulate the benefits and drawbacks of any merger/joint venture activity to the businesses involved.

5. Global expansion and uncertainty

- a. Students should explore what an appreciation or depreciation of a currency means and the implications of exchange rate movements on different businesses. For example, a strong pound will make imports cheaper in pounds. However, the impact of this depends on the degree to which a UK-based business purchases its raw materials from overseas and the extent to which it is susceptible to foreign competitors in its domestic market.
- b. Competitive advantage can be achieved through cost leadership which, in turn, allows for lower prices. Differentiation is another route to gaining a competitive advantage. Students are expected to be able to identify which of the two routes a business has taken to achieve competitive advantage and the reasons behind that decision. There are considerable links between other parts of Unit 4 in this section —for example, outsourcing, gaining global economies of scale, off-shoring — since the aim of a business is to gain competitive advantage.
- c. The lack of ability to acquire skilled workers could lead to a decline in competitiveness. Students should recognise that the impact of skill shortages will be felt more heavily on businesses that follow a differentiated approach to gaining a competitive advantage. There are again links with other parts of Theme 4 in this section since off-shoring and outsourcing are potential solutions to this problem.

4.3.3 Global marketing

This topic follows on from the previous section and examines how businesses can adapt their marketing to the challenge of selling in a newly identified overseas market. Students should recognise that, depending on the product, different marketing approaches may be necessary to overcome the barriers that prevent successful marketing in certain countries.

1. Marketing

- a. Students should be able to distinguish between different types of marketing strategy and determine which type of marketing strategy a business, given the product it sells, should use.

Glocalisation is captured by the phrase 'think global, act local' and refers to the notion of having to personalise marketing where required to the local market, while at the same time trying to keep marketing approaches consistent across all markets.

- b. Students are expected to understand the different marketing approaches business adopt in international marketing and apply the correct marketing strategy to a business considering the markets it operates in and the nature of the products it produces.

Students should consider the advantages and disadvantages of each approach and recognise examples of each; for example, Apple and Ferrari sell mostly standardised products everywhere, McDonald's maintains a global brand but adapt its menus in each country and Unilever adapts many of its products to each individual market.

- c. and d. The 4Ps and Ansoff's Matrix should be explored in relation to businesses operating in the international marketplace in this section. For example, promotional activities may need to be adapted to be culturally relevant or avoid offence, and products may need to be changed to meet differing needs or cultural sensibilities.

2. Niche markets

- a. Different markets have different cultural and religious sensitivities. Students should explore these and the impact this has on businesses operating globally.
- b. Global niche markets are small specialised parts of a global market. Within an individual country these markets may be relatively small, but combining them over several countries provides a large enough market for a business to enjoy significant demand.
- c. Businesses will need to develop a marketing strategy (4Ps) which is suitable for global niche markets. Students could be given a niche market product, such as Beats by Dr Dre headphones, and be tasked with designing a marketing campaign for the product that allows it to be successfully sold in a given country. Students could research the style of advertisements used in a given country using YouTube and research the country.

3. Cultural/social factors

- a. All markets will have their differences and the elements of the marketing mix will need to be adapted to cater for individual markets. Depending on the product and the country, there may be the need for more/less adaptations. For example, UK products for the Australian market may require fewer adaptations than those for the Chinese market since the cultural and social differences between Australia and the UK are relatively small. Students could be shown examples of food names to illustrate the difficulties of branding a product in one country that does not offend people's sensitivities in another country.

4.3.4 Global industries and companies (multinational corporations)

This topic considers the impacts of MNCs on a country's economy and examines the benefits and drawbacks to that country from the operation of an MNC to a range of stakeholders. Students should be able to question whether an MNC is operating in a truly ethical manner and recognise the difficulties of controlling global companies, especially in LEDCs.

1. The impact of MNCs

- a. Students should understand what an MNC is and the impact it can have on a country's local economy. Depending on the nature of the MNC, a country may benefit to a greater/lesser degree. Students should consider both positive and negative impacts.
- b. The impact on the national economy should also be considered. Students should consider both positive and negative impacts as well as the extent to which a country might benefit. For example, a country is likely to benefit from a MNC mining company if the mineral resource is rare, since the MNC does not have the option of choosing a different country. A country is likely to benefit more from an MNC producing textiles, since these types of business are labour intensive and it is unlikely that ex-patriot labour will be used. Therefore, although best practice transfer will be limited due to the skill level of the work, there could be a substantial decrease in unemployment in the LEDC.

Students could research the impact of Ford's decision in 2013 to cease the production of cars and vans in the UK, with van production being switched to Turkey.

3. Controlling MNCs

- a. Students should consider the likely success of different methods of controlling the activities of MNCs and the benefits and drawbacks of each method. Different methods of control are likely to work depending on the MNC, the activities of the MNC and the country in question. For example, an MNC extracting a relatively rare ore from a country should be in a situation where political and legal controls work since the MNC has limited market power because this resource is not ubiquitous and can only be found in certain geological locations. Footloose MNCs, on the other hand, are much more difficult to control since they can threaten to relocate out of a country, taking FDI, tax revenues and employment with them.

5. Assessment guidance

5.1 IAS assessment

The focus at IAS is on building knowledge and understanding of core business concepts, with a greater emphasis on breadth rather than depth.

There are two externally assessed papers at IAS. Each paper is worth 80 marks and is 2 hours in duration.

Each paper assesses distinct areas of the specification content, with Paper 1 assessing Unit 1 content and Paper 2 assessing Unit 2 content. In each paper, Section A and Section B are based on stimulus material and assess breadth, with data response questions (including short answer questions) that have a greater focus on AO1 and AO2. These questions integrate the requirements in the assessment objectives, ensuring that knowledge is not demonstrated in isolation from business applications. The stimulus material will be drawn from various business contexts.

Section C is based on stimulus material and assesses depth, enabling students to demonstrate higher-order skills. The extended open-response question in Section C assesses extended writing skills and enables students to make connections between the business concepts.

The structure of the two papers is the same to ensure a consistent approach to assessing the different content areas. All of the stimulus material is based on real businesses and real data. This supports students in developing a holistic understanding of how the core concepts and theories relate to the real world in which they live and work. This approach also supports students in genuine application to a range of business contexts.

At IAS, synoptic assessment is achieved through linking topics within units – students are required to make connections between two functional business areas and understand the linkages across core content areas. Questions may require students to draw on their knowledge from Unit 1 for questions on Paper 2.

5.2 IAL assessment

There are two externally assessed papers at IAL. Each paper is worth 80 marks and is 2 hours in duration.

Paper 1 and Paper 2 assess distinct areas of the qualification content, Paper 3 assesses Unit 3 and Paper 4 assesses Unit 4. In each paper, each section is based on stimulus material and comprises data response questions (including short answer questions), which have a greater focus on breadth and AO1 and AO2. The short answer questions integrate the requirements in the assessment objectives, ensuring that knowledge is not demonstrated in isolation from business applications. The extended open-response question in each section assesses depth, enabling students to demonstrate higher order and extended writing skills. The stimulus material will be drawn from various business contexts.

As with the IAS, all of the stimulus material in the IAL is based on real businesses and real data to support students in developing a holistic understanding of how the core concepts and theories relate to the real world in which they live and work. This approach also supports students in genuine application to a range of business contexts.

Students are required to make connections and understand the linkages across the whole specification content at IAL. For Paper 3, questions may require students to draw on their knowledge from Units 1 and 2. For Paper 4, questions may require students to

draw on their knowledge from Units 1, 2 and 3. Both papers will include questions that require students to use quantitative skills.

A key differentiator between the IAS and IAL assessments is that the IAL level papers draw on content from across the IAS units. A further differentiation is provided in the style of questions at IAL when assessing content that is covered in Unit 1 and Unit 2; for example, students may be asked to define a concept from Unit 1 in the IAS assessments but may be asked to explain the impact of this concept in the IAL assessments. Students may be required to perform a calculation at IAS but may be asked to complete an additional step (such as interpret the result of this calculation) at IAL.

5.3 Question types

A range of question types have been used across the IAS and IAL Business assessments. All of the questions are based on stimulus material, underpinning the importance of the application of knowledge and understanding to a range of business contexts.

Short open response questions have been used to assess both discrete knowledge and understanding of business concepts and issues (AO1) as well as the application of these concepts to a particular business stimulus or context (AO2). Questions assessing AO1 target lower-order skills. Short open response questions also allow for the development of student responses, requiring students to make connections and show a logical chain of reasoning and therefore access higher-order cognitive skills and demand (AO3). Extended open response items have been used to assess across the breadth of assessment objectives.

6. Transferable skills

6.1 Why transferable skills?

In recent years, higher education institutions and employers have consistently flagged the need for students to develop a range of transferable skills to enable them to respond with confidence to the demands of undergraduate study and the world of work. Ensuring that IAL qualifications will help improve student outcomes through the acquisition of these transferable skills, as well as subject content and skills, is a key aim for Pearson.

Through our teaching materials and support offered we want to:

1. increase awareness of transferable skills that are already being assessed (for both students and teachers)
2. indicate where, for teachers, there are opportunities to teach additional skills that won't be formally assessed, but that would be of benefit to students
3. ensure these opportunities are embedded in the teaching and learning, so that they are not an additional burden or requirement for teachers and students.

6.2 Defining transferable skills

The Organisation for Economic Co-operation and Development (OECD) defines skills, or competencies, as 'the bundle of knowledge, attributes and capacities that can be learned and that enable individuals to successfully and consistently perform an activity or task and can be built upon and extended through learning.'^[1]

To support the design of our qualifications, the Pearson Research Team selected and evaluated seven global 21st-century skills frameworks. Following on from this process, we identified the National Research Council's (NRC) framework ^[2] as the most evidence-based and robust skills framework, and have used this as a basis for our adapted skills framework. The framework includes cognitive, intrapersonal skills and interpersonal skills.



^[1] OECD – *Better Skills, Better Jobs, Better Lives* (OECD Publishing, 2012)

^[2] Koenig J A, National Research Council – *Assessing 21st Century Skills: Summary of a Workshop* (National Academies Press, 2011)

7. Glossary of command words

The following command words in this taxonomy will be used consistently by Pearson in its assessments to ensure students are rewarded for demonstrating the necessary skills. Careful consideration has been given to this taxonomy to ensure that Assessment Objectives are targeted consistently across questions. Please note: the list below will not necessarily be used in every paper/session and is provided for guidance only. One of the key changes is that a single command word will be used per item; dual injunctions, for example describe and evaluate, will no longer be used.

Command word	Description	Assessment Objective	Mark
Define	Requires students to define a term or phrase.	A01	2
Calculate	Requires students to perform a calculation, based on given data. Calculators may be used and workings should be given.	A01 A02 A03	4
Construct	Requires students to draw an accurately labelled diagram. Students may be required to decide on a type of diagram, or the type required may be stated.	A01 A02 A03	4
Explain	Requires students to provide a brief explanation of cause or effect, which is supported by details or example(s).	A01 A02 A03	4
Analyse	Requires a brief chain of reasoning, explanation and/or justification. If applied to given diagrams or data, it will include interpretation. Does not include evaluation.	A01 A02 A03	6
Discuss	Requires a logical chains of reasoning, in context, showing cause(s) and/or effect(s). A brief assessment is required showing an awareness of competing arguments/factors.	A01 A02 A03 A04	8
Assess	Requires a coherent and logical chain of reasoning, showing cause(s) and/or effect(s) which is well contextualised. Assessment is balanced and wide ranging showing an awareness of competing arguments/factors, leading to a supported judgement.	A01 A02 A03 A04	10 (in Units 1 & 2) 12 (in Units 3 & 4)

Command word	Description	Assessment Objective	Mark
Evaluate	Requires fully developed, coherent and logical chains of reasoning, showing a range of cause and/or effect(s). A full awareness of the validity and significance of competing arguments/factors leading to a perceptive conclusion that proposes a solution and/or recommendations.	AO1 AO2 AO3 AO4	20