

GCE

Business

Unit **H031/01**: The local business environment

Advanced Subsidiary GCE

Mark Scheme for June 2016

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

	Blank page
	Tick
	Cross
	Not answered question
	Own Figure Rule
	Benefit of Doubt
	Repeat
	Noted but no credit given
	Too vague
	Unclear
	Knowledge
	Application of knowledge and understanding
	Analysis
	Evaluation
	Effective evaluation

Levels of response – Level descriptors

	Knowledge and understanding/ Application	Analysis	Evaluation
Strong		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

SECTION A				
Question	Answer	Marks	AO	Rationale
1	C	1	2	A nursing home provides a service of care and is therefore in the tertiary (service) sector. This nursing home is run by a local authority so it a public sector organisation rather than a charity. Candidates need to decide whether this nursing home is a primary or tertiary organisation and whether it is in the public or third sector.
2	B	1	1	Improving the training given to production workers should lead to improvements in production quality. Candidates unfamiliar with the concept of benchmarking may think it refers to increased damage and wastage. It would then follow that avoiding benchmarking would improve quality. Instead benchmarking is a method used to improve quality. Lean production may reduce wastage but it does not in and of itself improve quality. Working at maximum capacity may increase output but operating at the limit of capacity is more likely to lead to a reduction, rather than an improvement in quality.
3	C	1	1	Productivity (output/input) is a numerical but non-financial measure of business performance. Economic growth is a numerical but non-financial measure of an economy's performance rather than of individual business. Net profit and sales revenue measure the performance of individual businesses but are both financial.
4	A	1	2	$40,000,000 / 100 \times 0.8 = 320,000$ tonnes = 0.32 million tonnes Answer C uses the correct formula but misplaces the decimal point. Answers B and D erroneously divide 40 million by 0.8 and misplace the decimal point.
5	B	1	1	A change of legal status, e.g. change from sole trader to partnership or private limited company to public limited company, is a form of change and thus uncertainty. However the decision to change the form of ownership is within the control of the business and therefore an internal cause of uncertainty. A change in interest rates, a general election and a new competitor are all causes of uncertainty in a business – however their causes are beyond the control of the business and therefore external.

SECTION A				
Question	Answer	Marks	AO	Rationale
6	B	1	2	Unit contribution = Selling price – Variable cost. Therefore the contribution of one can of dog food = $16p - 9p = 7p$ Answer A - candidate erroneously calculates contribution as SP/VC. Answer C - candidate equates contribution with revenue. Answer D - candidate calculates contribution as SP + VC.
7	D	1	1	Rent, rates, heating and lighting and other bills are likely to be lower because expensive premises are not required. Answer A is irrelevant and, if anything, incorrect as barriers to exit are likely to be lower. Answer B- the physical or non-physical market location does not directly impact on decision-making. Answer C - advertising (albeit in different forms) is required by any business, irrespective of its channel of distribution.
8	B	1	2	Cost £750,000 covered by £200,000 net cash-flow end of year 1, £300,000 end of year 2 and £250,000 of £500,000 in year 3. Since $£250,000 / £500,000 = 0.5$ the payback period for this investment is 2.5 years. Answer D candidate correctly calculates the figure of 0.5 but concludes that the payback is halfway through Year 3. Answers A and C - candidate states which year the company will achieve payback, rather than calculating the precise point at which payback will be achieved.
9	B	1	1	An exchange rate is used to convert one currency to another e.g. $€1 = £0.71$ The cost of borrowing money is measured by the interest rate. The rate at which prices are rising is called inflation. There is no specific measure of the relationship between risk and reward.
10	B	1	2	Net profit margin = Net profit / Sales revenue x 100. Zedno's net profit = $£600,000 - £200,000 - £250,000 = £150,000$. Zedno's net profit margin = $£150,000 / £600,000 \times 100 = 25\%$. Answer A, candidate correctly calculates net profit but then inverts the net profit margin formula dividing sales revenue by net profit. Answer C, candidate erroneously divides cost of sales by sales revenue. Answer D, candidate incorrectly calculates the net profit margin by dividing total cost by sales revenue.

SECTION A				
Question	Answer	Marks	AO	Rationale
11	B	1	2	All of the answers would increase demand but only Answer B is a social factor. The availability of a government grant and credit from banks are both economic factors. Providing a glossy brochure is a marketing technique (not a social factor) used to increase sales.
12	C	1	1	A product lifecycle diagram shows the stages through which a product passes during its lifetime including introduction, growth, maturity and decline. Market saturation is shown at the peak of the curve. Answer A confuses the produce life cycle and the business cycle. Answer B confuses the product life cycle graph with a LRATC graph. Answer D confuses the product life cycle diagram with a breakeven graph.
13	D	1	2	Environmental sustainability requires that the use of current resources does not adversely affect the resources available for future generations. Answers A and C distinguish between the common meaning of sustainable (long term endurance) and the environmental meaning of the term. Answer B is an example of ethical behaviour rather than environmentally friendly sustainable behaviour.
14	B	1	1	360° assessment is a method of employee appraisal which takes into account multi-perspective feedback. In addition to the opinions of superiors; peer, subordinate and self-assessment are used. Sometimes feedback is also obtained from external sources. Answer A - candidates latches onto the 360° reference believing the assessment to be a form of mathematical test for prospective employees. Answer C - the candidate erroneously believes this to be one of the numerically named ISO's e.g. ISO 9001. Answer D - candidate knows that 360° assessment is a type of appraisal but confuses investment appraisal with workforce appraisal.
15	A	1	2	$(£180,000 - £152,000) / £180,000 \times 100 = (£28,000 / £180,000) \times 100 = 15.5555\% = 15.6\%$ Revenue was lower than predicted which is adverse. Answer B, correct calculation but erroneously interprets lower revenue as favourable. Answer C, correctly identifies the variance as adverse but uses incorrect calculation. Answer D, uses incorrect calculation and erroneously interprets the variance as favourable.

SECTION B					
Question			Answer	Marks	Guidance
16	(a)		One mark for each correct identification up to a maximum of two identifications.	2 (AO1 2)	Indicative content: • profit/financial reward/make own money • be your own boss/own rules • gain experience/skills • gain job satisfaction • pursue personal ideas/interests/passions • set own objectives • greater opportunity to be creative • freedom/free to choose working hours • more flexibility • a way of earning a living (Faik could not find a job). No context required. ARA (all reasonable answers)
16	(b)		One mark for each correct identification up to a maximum of two identifications, plus one mark for each of two explanations. Must be a personal risk i.e. a risk to the entrepreneur not the business. Accept explanation as to cause or consequence. 'Run out of funds' please annotate as too vague (TV) – to award it needs to be clear it is personal funding e.g. income/savings/investment etc.	4 (AO1 4)	Indicative content: • risk to physical health • risk to mental health • risk of losing family/partner • risk of losing personal investment/savings • risk of losing personal assets e.g. own home • risk of personal bankruptcy/financial ruin • risk of losing own business/business failure • risk of wasting own time/energy • loss of steady income • end up losing money • loss of reputation • loss of confidence/self-esteem. No context required. Exemplar response: An entrepreneur often risks their own mental well-being (1) by working long hours with few breaks or holidays (1). ARA

SECTION B					
Question			Answer	Marks	Guidance
17			Two marks for a contextual response. One mark for a generic response. Please annotate a contextual response with APP.	2 (AO1 1) (AO2 1)	Indicative content: • knowledge/experience • assistance/support/guidance • identify risks • contacts/effective networking • insight/vision/perspective • provide feedback/act as a sounding board • reduce feelings of isolation • emotional support • encourage Faik to be more innovative/creative/entrepreneurial. Response must be in context for full marks. Exemplar response: A mentor may have contacts in education which Faik could use when trying to secure bookings with nurseries (APP) and schools (2). A mentor may have contacts which Faik could use to make his business more successful (1).

SECTION B				
Question		Answer	Marks	Guidance
18*		Level 4 (10–12) Candidate shows strong knowledge and understanding, analysis and evaluation of the importance to Wild Fangs of providing high quality customer service. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (7–9) Candidate shows good knowledge and understanding, analysis and evaluation of Wild Fangs providing high quality customer service. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (4–6) Candidate shows reasonable knowledge and understanding, analysis and evaluation of Wild Fangs providing high quality customer service. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i> Level 1 (1–3) Candidate shows limited knowledge and understanding of customer service with limited or no analysis and evaluation of Wild Fangs providing high quality customer service. NB – award maximum of two marks for non-contextualised impacts. 0 marks no response or no response worthy of credit.	12 (AO1 2) (AO2 2) (AO3 4) (AO4 4)	Indicative content: • gain bookings • encourage repeat custom • recommendation/word of mouth advertising • create business advocate • cheaper than other forms of advertising • ability to meet goals of entrepreneur e.g. profit, grow • effect on cash flow • effect on profitability • effect on reputation • allow price increase • may affect feedback and website • help grow business • contribution to longevity • new/small business – funding, expertise, build up customer base • sector of operation - tertiary/services • quality of service provision itself e.g. informative, interesting • service provision to vulnerable adults and children • feedback suggests other criteria also important e.g. quality of exhibition/talk, range of animals, price, Faik's sensitivity and ability to create rapport with audience • other criteria for success of business e.g. cost control, USP, health and safety, operational efficiency • quality of customer service before, during and after the event. Candidates may refer to the feedback from customers suggesting pricing (especially in B2C), educational content (especially B2B) and Faik's personal qualities may be more important.

SECTION B						
Question			Answer	Marks	Guidance	
					Candidates may wish to distinguish the importance of high quality customer service in the B2B and B2C markets, or the importance for the short term/long term. Alternatively may wish to distinguish between the quality of the service provided and the quality of the customer service which supports the provision. In addition, candidates may discuss the greater importance of the quality of customer service in the tertiary sector to that of the other sectors. Candidates may also consider that some other business function or activity is more important to the success of Wild Fangs. Answers in the negative are acceptable, i.e. what would happen if Faik did not offer good customer service. Exemplar responses: Offering a high quality of customer service is of fundamental importance to Wild Fangs' because the business is new and is financed solely by Faik. It needs to build up a good reputation and high sales if the business is going to be able to survive and expand in the long term, else Faik will run out of funds and the business could go bankrupt. (Evaluation). High quality customer service is likely to encourage repeat custom, this in turn should increase revenue and improve Wild Fangs' cash flow position (Analysis). Being a new business, Faik needs to ensure that his business gains a good reputation, this could be achieved by offering good quality customer service. (Application) One benefit of offering high quality customer service is an increase in bookings. (Knowledge and Understanding).	

SECTION B					
Question			Answer	Marks	Guidance
19	(a)		Up to two marks. Award full (two) marks for £4320 Otherwise: award one mark for £360 or £1440 if seen.	2 (AO2 2)	£120 x 3 x 12 = £4320 Pound sign not required.
19	(b)		Up to three marks. Award full (three) marks for 63 (irrespective of workings). Otherwise: Award one mark for 20% and one mark for 75% if seen.	3 (AO2 3)	$\Delta P = \text{£}120 - \text{£}96 = \text{£}24$ reduction $\% \Delta P = -\text{£}24/\text{£}120 \times 100 = -20\%$ (1) $PED = \% \Delta QD / \% \Delta P \therefore -3.75 = \% \Delta QD / -20\%$ $\therefore \% \Delta QD = +75\%$ (1) $QD = 36 \times 1.75 = 63$ (1) Minus sign (for 20%) not required. No units required.
20*			Level 4 (16–20) Candidate shows strong knowledge, understanding and analysis of the extent to which Wild Fangs' promotional activities are likely to be effective. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 3 (11–15) Candidate shows good knowledge and understanding, analysis and evaluation of the likely effectiveness of Wild Fangs' promotional activities. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i>	20 (AO1 2) (AO2 2) (AO3 8) (AO4 8)	Indicative content: • below the line • above the line • Internet – website, email – better use of? • Email – up-to-date, junk, free • Website – benefit of photos and customer feedback, search engines, who would access, traffic • social media – currently Facebook, Twitter and blogging (allow different methods of social media as different promotional activities) • personal selling – currently exhibitions and road shows • advertising • sponsorship • sales promotion • public relations

SECTION B				
Question			Answer	Marks
			Level 2 (6–10) Candidate shows reasonable knowledge and understanding, analysis and evaluation of the likely effectiveness of Wild Fangs' promotional activities. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i> Level 1 (1–5) Candidate shows limited knowledge and understanding of the promotional activities with limited or no analysis and evaluation of the likely effectiveness of Wild Fangs' promotional activities <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> NB – award maximum of two marks for non-contextualised impacts. 0 marks no response or no response worthy of credit.	• other techniques which could be used eg direct mail, leaflets, competitions • taking into consideration the circumstances of Wild Fangs • local market – London • available budget e.g. Faik living at home, all his money into the business • target market – B2B (educational institutions and health care settings) and B2C • need for market segmentation • gaining the attention of the target market • message/image conveyed • purpose of promotion e.g. raise awareness, inform, increase sales • business experience of entrepreneur – limited, age 22, graduate • not using LinkedIn for B2B • mass market/niche techniques – broad or targeted • need for branding • need to promote business strengths e.g. Faik's passion and enthusiasm • business attitudes to social media. Candidates may refer to data given in Extract E regarding the most appropriate social media platform to use for marketing to B2B and B2C. Candidates may wish to distinguish the likely effectiveness of the promotional activities depending on whether B2B and B2C are being targeted. They could judge the relative effectiveness of below the line methods in comparison with above the line methods. Alternatively they could judge the relative effectiveness of each of the techniques currently

SECTION B						
Question			Answer	Marks	Guidance	
					used by Wild Fangs. They may also wish to suggest whether the current activities are sufficient and how the needs of the business may change in the future. Recommendations for more effective strategies are acceptable so long as the reasoning is justified. Exemplar responses: Promoting on social media is likely to be more effective than newspaper advertising because it is a popular channel with younger people, Wild Fang's target market. (Evaluation). Positive reviews on a website should lead to more bookings. This should lead to more revenue and more profit. (Analysis). Wild Fangs is a small business so needs a low cost form of promotion. (Application). One benefit of promoting on a website is that a wide audience can be reached. (Knowledge and Understanding).	

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