Oxford Cambridge and RSA

Accredited

AS Level in Business

H031/01 The local business environment

Sample Question Paper

Date – Morning/Afternoon

Time allowed: 1 hour 30 minutes

You must have:
- the Resource Booklet

You may use:
- a scientific or graphical calculator

First name										
Last name										
Centre number						**Candidate number**				

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INSTRUCTIONS
- Use black ink.
- Complete the boxes above with your name, centre number and candidate number.
- Answer **all** the questions.
- Use black ink.
- Write your answer to each question in the space provided. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.
- The Resource Booklet is required for **Section B** only.

INFORMATION
- The total mark for this paper is **60**.
- The marks for each question are shown in brackets **[ ]**.
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **12** pages.

Section A

Answer **all** the questions. Put a tick (✓) in the box next to the **one** correct answer for each question.

1 A company manufactures ground coffee. Which of the following is likely to lead to an increase in demand for its product?

(a) A failed coffee bean harvest ☐

(b) An increase in the price of tea ☐

(c) A new coffee manufacturer entering the market ☐

(d) A government campaign on the dangers of coffee ☐

[1]

2 Which of the following is a benefit of having a tall organisational structure?

(a) Supervisors have relatively few staff to manage ☐

(b) Less expenditure on renting the premises ☐

(c) A long chain of command ☐

(d) The ability to respond quickly to changes in the market ☐

[1]

3 The Human Resource Manager at Sutton Frozen Foods Ltd has collected the following data:

Sutton Frozen Foods Ltd	2012	2013
Average number of staff employed	310	320
Total output of ready meals	300 000	320 000
Number of staff leaving	49	54

Sutton Frozen Foods Ltd's rate of labour turnover for 2013 is:

(a) 0.1% ☐

(b) 5.9% ☐

(c) 15.8% ☐

(d) 16.9% ☐

[1]

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4 Indirect tax on carbon emissions is increased from £18 per tonne to £20 per tonne. The additional annual cost to a factory which produces 750 tonnes of carbon emissions a month will be:

(a) £1500 ☐

(b) £9000 ☐

(c) £15 000 ☐

(d) £18 000 ☐

[1]

5 The definition of a 'consumer' is the:

(a) purchaser of a product or service ☐

(b) manufacturer of a product or service ☐

(c) retailer of a product or service ☐

(d) end user of a product or service ☐

[1]

6 A retailer has just obtained exclusive supplies of a leading brand's newly launched games console. Which pricing strategy would it be **best** for the retailer to use?

(a) Psychological pricing ☐

(b) Competition-based ☐

(c) Skimming ☐

(d) Cost-plus ☐

[1]

7 Which of the following is a feature of an oligopolistic market?

(a) A large number of firms ☐

(b) Significant barriers of exit ☐

(c) Interdependence between firms ☐

(d) Weak market power ☐

[1]

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8 Sunita Kaijin and Kri Chan run their own restaurant, Sri Delights, trading as a partnership. Which of the following is classified as an external stakeholder of Sri Delights?

(a) The kitchen manager ☐

(b) The shareholders ☐

(c) The waiters ☐

(d) The local residents ☐

[1]

9 Which one of the following is an unquantifiable risk?

(a) A change in the exchange rate ☐

(b) A major customer going out of business ☐

(c) A natural disaster ☐

(d) The breakdown of equipment ☐

[1]

10 Which one of the following is a financial measurement of business performance?

(a) Market share ☐

(b) Profit ☐

(c) Productivity ☐

(d) Wastage rate ☐

[1]

11 Which one of the following is **not** usually found in a business plan?

(a) A demand and supply diagram ☐

(b) An executive summary ☐

(c) A market analysis ☐

(d) A mission statement ☐

[1]

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12 A company with 100 000 £1 ordinary shares issued has a current share price of £2. It has made a net profit of £25 000. Assuming all of the net profit is distributed as dividends, the earnings per share will be:

(a) £4 ☐

(b) £2 ☐

(c) £1 ☐

(d) £0.25 ☐

[1]

13 A market research group has estimated that the cross elasticity of demand between petrol and cars is - 0.6. This implies that a 5% fall in the price of petrol will:

(a) reduce the demand for diesel by 5.6% ☐

(b) reduce the supply of petrol by 5% ☐

(c) increase the number of journeys people make using a substitute such as a bus by 4.4% ☐

(d) increase the demand for cars by 3% ☐

[1]

14 A small business producing bird tables has a fixed cost of £800 and a variable cost per bird table of £30. The bird tables are sold for £50. The business produces and sells 70 bird tables.

If fixed costs rise by £500, how many bird tables does the business now need to produce to maintain the same margin of safety?

(a) 55 ☐

(b) 80 ☐

(c) 95 ☐

(d) 105 ☐

[1]

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15 The table below shows the projected net cash flows for a project.

Year	Projected net cash inflows (£)
0	(320 000)
1	72 000
2	95 000
3	113 000
4	96 000
5	86 000

What is the payback period for this project?

(a) 3 years 4 months ☐

(b) 3 years 5 months ☐

(c) 3 years 6 months ☐

(d) 3 years 11 months ☐

[1]

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Section B

Answer **all** the questions.

Use the information provided in the **Resource Booklet** to answer the following questions.

16 Explain **two** benefits to an entrepreneur of being a sole trader.

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2 ……..

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[4]

17 Referring to Fig. 3, identify the minimum size of overdraft *Mostly Kids* is likely to require during its first year of trading.

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[1]

18 Referring to Fig. 4:

(a) Calculate *Mostly Kids'* budgeted net profit for Year 3.

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[3]

(b) Calculate *Mostly Kids'* percentage increase in budgeted income from Year 1 to Year 2.

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[4]

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(c) Identify **one** reason why it would have been difficult for Barbara to produce accurate budgeted figures for *Mostly Kids'* first year of trading.

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[1]

19* Evaluate likely impacts on *Mostly Kids* of holding too much stock.

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[12]

20* Evaluate the extent to which *Mostly Kids* is likely to be affected by a major children's clothing retailer opening in the locality.

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[20]

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Specimen Assessment Material

AS Level in Business

H031/01 The local business environment

SAMPLE MARK SCHEME

Duration: 1 hour 30 minutes

MAXIMUM MARK 60

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This document consists of 20 pages

MARKING INSTRUCTIONS

PREPARATION FOR MARKING
SCORIS

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *scoris assessor Online Training*; *OCR Essential Guide to Marking*.

2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal http://www.rm.com/support/ca

3. Log-in to scoris and mark the **required number** of practice responses ("scripts") and the **required number** of standardisation responses.

   YOU MUST MARK 10 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

TRADITIONAL

Before the Standardisation meeting you must mark at least 10 scripts from several centres. For this preliminary marking you should use **pencil** and follow the **mark scheme**. Bring these **marked scripts** to the meeting.

MARKING

1. Mark strictly to the mark scheme.

2. Marks awarded must relate directly to the marking criteria.

3. The schedule of dates is very important. It is essential that you meet the scoris 50% and 100% (traditional 50% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.

4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the scoris messaging system.

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5. Work crossed out:

   a. where a candidate crosses out an answer and provides an alternative response, the crossed out response is not marked and gains no marks
   b. if a candidate crosses out an answer to a whole question and makes no second attempt, and if the inclusion of the answer does not cause a rubric infringement, the assessor should attempt to mark the crossed out answer and award marks appropriately.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen.

7. There is a NR (No Response) option. Award NR (No Response)

   - if there is nothing written at all in the answer space
   - OR if there is a comment which does not in any way relate to the question (e.g. 'can't do', 'don't know')
   - OR if there is a mark (e.g. a dash, a question mark) which isn't an attempt at the question.

   Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The scoris **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

   If you have any questions or comments for your Team Leader, use the phone, the scoris messaging system, or e-mail.

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

10. For answers marked by levels of response:

    a. **To determine the level** – start at the highest level and work down until you reach the level that matches the answer

    b. **To determine the mark within the level**, consider the following:

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Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

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11. **Annotations**

Annotation	Meaning

12. **Subject-specific Marking Instructions**

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

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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.

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USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

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INSTRUCTIONS TO EXAMINERS:

A INDIVIDUAL ANSWERS

1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.

2 Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.

- **Highest mark**: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.

- **Lowest mark**: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.

- **Middle mark**: This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.

3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

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B TOTAL MARKS

1 Transfer the mark awarded to the front of the script.

2 The maximum mark for the paper is **60**.

3 The quality of extended responses is assessed in parts of this paper. The assessment of this skill is embedded within each of the levels and must be considered when determining the mark within the appropriate level.

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Question	Answer	Marks	AO	Rationale
Section A				
1	**(b)**	**1**	**2**	**(a)** This will reduce supply **(b) Correct answer:** complementary goods – demand for tea will fall and demand for coffee will increase **(c)** This impacts on supply **(d)** This is likely to lower the demand for coffee
2	**(a)**	**1**	**1**	**(a) Correct answer:** more levels, more supervision and narrower span of control **(b)** Candidate confuses tall organisational structure with tall buildings **(c)** A tall organisation will have a long chain of command but this is not a benefit **(d)** Decision making is likely to be slower because of number of levels
3	**(d)**	**1**	**2**	**(a)** Incorrect formula – total staff divided by output **(b)** Formula inverted **(c)** Incorrect year – this is the rate of labour turnover in 2012 **(d) Correct answer:** 54/320*100=16.9%
4	**(d)**	**1**	**2**	**(a)** Common error, candidate forgets to multiply by 12 for the annual cost **(b)** Candidate multiplies 750 x 12 but forgets to multiply by the additional £2 charge **(c)** Candidate incorrectly multiplies the monthly output of 750 tonnes by the new tax level of £20 **(d) Correct answer:** £20–£18=£2; £2 x 750 x 12 = £18 000
5	**(d)**	**1**	**1**	**(a)** Common confusion between consumer and customer; this is the definition of a customer **(b)** The manufacturer is the maker of the product **(c)** The retailer is the seller of the product **(d) Correct answer:** the consumer is the end user who may or may not be the purchaser
6	**(c)**	**1**	**1**	**(a)** Whilst customers always like a bargain this is not likely to be the most appropriate pricing strategy to use when launching a new high tech product into the market **(b)** Whilst important in the long run for a firm with major competitors it is not the most suitable for a product launch in this market **(c) Correct answer:** state of the art and new to market, this is the ideal pricing strategy for a high tech product at its launch, potential for high profits **(d)** It can be assumed that the product will be sold at a considerable premium, so is therefore not the most appropriate strategy to use in this situation
7	**(c)**	**1**	**1**	**(a)** Candidate confuses oligopoly with more competitive market structure **(b)** Candidate confuses barriers to exit with barriers to entry **(c) Correct answer:** firms operating in an oligopoly are directly affected by their rival's behaviour **(d)** Oligopolies have few firms where markets with large numbers of firms have weak market power

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Question	Answer	Marks	AO	Rationale
8	(d)	1	2	**(a)** The manager will be an internal stakeholder **(b)** A partnership does not have shareholders **(c)** The staff will be internal stakeholders **(d) Correct answer:** local residents are affected by the business but external to it
9	(c)	1	1	**(a)** The effects of a change in the exchange rate can be measured and predicted **(b)** It is possible to measure the sales revenue lost by a major customer going out of business. **(c) Correct answer:** A natural disaster (the key) cannot be easily predicted or measured. **(d)** The effects of the breakdown of particular equipment can be measured and planned for (servicing and maintenance)
10	(b)	1	1	**(a)** Market share can be measured quantitatively but is not a financial measurement. It does appear in the Marketing AS specification. **(b) Correct answer:** this is a financial measurement valued in monetary terms. Profit does appear in the Non–Functional; Measures of Performance part of the AS specification (candidates need to know the difference between profit and cash flow) **(c)** Productivity is another quantitative measurement but is not a financial measurement. It does appear in the Human Resources section of the AS specification. **(d)** The wastage rate can, again, be measured quantitatively but is not a monetary measurement. Wastage rate does appear in the AS Operations Management specification.
11	(a)	1	1	**(a) Correct answer:** the market may be analysed (c) but it is not usual to find a demand and supply diagram in a business plan as they are highly theoretical and difficult to draw in a real business situation **(b)** This is the first part of a business plan **(c)** This is included in a business plan. It sounds similar to '(a)' so may act as a distractor **(d)** This can also appear at the start of a business plan
12	(d)	1	2	**(a)** Wrong figures must have been used in the calculation **(b)** Wrong figures must have been used in the calculation **(c)** Wrong figures must have been used in the calculation **(d) Correct answer:** £25 000 (the profit)/100 000(number of shares) = £0.25. The correct formula and figures must have been used. None of the other figures would be right.
13	(d)	1	2	**(a)** Not CED of petrol and cars **(b)** Not CED of petrol and car **(c)** Not CED of petrol and cars **(d) Correct answer:** CED = $\frac{\%\text{change demand for cars}}{\%\text{ change in price of petrol}}$

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Question	Answer	Marks	AO	Rationale
				If the figure is –0.6 then the figures must be +3/–5
14	**(c)**	**1**	**2**	**(a)** Current BE = 800/(50–30) = 40 MOS = 70 – 40 = 30 Using incorrect £500 as new FC BE = 500/(50–30) = 25 Produce BE + MOS = 25 + 30 = 55 **(b)** Incorrect assumption that when FC rise by £500 contribution is £50 per table 500/50=10 so 10 more tables required. 70+10=80 tables **(c) Correct answer:** Current BE = 800/(50–30) = 40 MOS = 70 – 40 = 30 With FC = £1300 BE = 1300/(50–30) = 65. Produce BE + MOS = 65 + 30 = 95 **(d)** Incorrect calculation of margin of safety = 70 – 30 = 40 With FC = £1300 BE = 1300/(50–30) = 65. Produce BE + MOS = 65 + 40 = 105
15	**(b)**	**1**	**2**	**(a)** Incorrect assumption that decimal equals the number of months: 320 000–72 000–95 000–113 000=280 000, therefore 3 years and ? months 320 000–280 000=40 000 left 40 000/96 000=0.416 Therefore 3 years and 4 months **(b) Correct answer:** 320 000–72 000–95 000–113 000=280 000, therefore 3 years and ? months 320 000–280 000=40 000 left 40 000/96 000=0.416 0.416x12=5months Therefore 3 years 5 months **(c)** Payback during Year 3, therefore 3 and half years – 3 years 6 months **(d)** Incorrect calculation: 320 000–72 000–95 000–113 000=280 000 therefore 3 years and ? months 280 000–96 000=184 000 left 184 000–96 000=88 000 88 000/96 000=0.92 0.92x12=11 months Therefore 3 years 11 months

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Question			Answer	Marks	Guidance
Section B					
16			One mark for each correct identification up to a maximum of two identifications, plus one mark for each of two explanations	**4** **(4 AO1)**	Indicative content: • own boss/decision making • keep all profit • easy to establish/lack of legal restriction • personal satisfaction/self–actualisation • potential to earn more (than as a catering assistant) • pursue interest/passion (for fashion) • flexibility (childcare arrangements). Exemplar response Being your own boss (1) enables an entrepreneur to make decisions quickly as there is no need to consult anybody else (1).
17			For one mark. Accept – £2 000 or (£2 000)	**1** **(1 AO2)**	Minimum overdraft required in first year of trading = £2000
18	**(a)**		Up to 3 marks	**3** **(1 AO1)** **(2 AO2)**	Income £60 000 (1) Expenditure £35 000 (1) Budgeted net profit for Year 3 = £25 000 (1)
18	**(b)**		Up to 4 marks. Award full marks for the correct answer = 25 (% sign is not required). Award 3 marks for 0.25 or evidence of division by £40 000.	**4** **(2 AO1)** **(2 AO2)**	Percentage increase in budgeted income from Year 1 to 2 Year 1 £40 000 (1) Year 2 £50 000 (1) Increase £10 000 (1) $\frac{£50\,000 – £40\,000}{£40\,000}$ x 100 = 25% (1)
18	**(c)**		One mark for a correct identification.	**1** **(1 AO2)**	Indicative content: • Barbara's lack of experience/knowledge/skills • no previous data • Barbara is new to the area/unfamiliar location

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Question			Answer	Marks	Guidance
					• unpredictable nature of task/new business/ economy • Barbara did not undertake primary research.
19*			**Level 4 (10–12)** Candidate shows strong knowledge and understanding, analysis and evaluation of the impact on *Mostly Kids* of holding too much stock. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 3 (7–9)** Candidate shows good knowledge and understanding, analysis and evaluation of the impact on *Mostly Kids* of holding too much stock. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (4–6)** Candidate shows reasonable knowledge and understanding, analysis and evaluation of the impact on *Mostly Kids* of holding too much stock. *The information has some relevance and is presented with limited structure. The information is supported by limited evidence.* **Level 1 (1–3)** Candidate shows limited knowledge and understanding of poor stock control with limited or no analysis and evaluation of the impact on Mostly Kids holding too much stock. (NB – award maximum of two marks for non–contextualised impacts).	**12** **(2 AO1)** **(2 AO2)** **(4 AO3)** **(4 AO4)**	Candidates may consider: • solvency issues/acid test ratio/bank's willingness to overdraft • increased risk of business failure • opportunity cost – capital tied up in stock earns no reward and cannot be used for other purposes • storage costs – the physical costs of storage, heating to ensure clothes do not get damp, space at a premium • spoilage costs – excessive stock causes storage problems and greater risk of damage • transport costs – time taken and financial cost – 220 mile round trip using current supplier • cost of purchasing stock/cash outflows greater than necessary/cash flow difficulties/Barbara already used all of her savings • insufficient cash flow to respond to changes in demand • no spare cash for marketing and promotion • inability to sell stock/reduced profit/Barbara's livelihood • limited space/clutter/possibly untidy/poor customer experience/risk of accidents/effect on reputation • holding too much stock may mean there is no space for a changing room which does not encourage visitors to spend and increase revenue • business in poor financial position in terms of cash flow and profit – spending money on stock which is not required compounds the problem • stock goes out of fashion/becomes worthless/inability to sell/profit margins

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Question			Answer	Marks	Guidance
			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. **0 marks** no response or no response worthy of credit.		• impact on customer service/limited effect due to having no direct competition • clothing is seasonal and subject to changing trends in fashion – holding large stocks increases the risk of stock being left unsold • effects on insurance cover – increased risk of loss/damage • low profit – not much money to live on Candidates can consider any type of impact – financial, functional, strategic, operational etc. Since Barbara is a sole trader and the business does not have separate legal identity. Accept impacts on Barbara as well as on Mostly Kids.
20*			**Level 4 (16–20)** Candidate shows strong knowledge, understanding and analysis of possible effects on *Mostly Kids* of a major children's' clothing retailer opening in the locality. Candidate evaluates the extent to which a major children's clothing retailer opening in the locality will affect *Mostly Kids*. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 3 (11–15)** Candidate shows good knowledge and understanding, analysis and evaluation of possible effects on *Mostly Kids* of a major children's clothing retailer opening in the locality. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*	**20** **(2 AO1)** **(2 AO2)** **(8 AO3)** **(8 AO4)**	Candidates may consider: • increased competition – less market power • loss of custom to the competition – lower revenue, lower profits, cash flow difficulties • greater risk – relationship between uncertainty and risk • market orientation – less product orientated • marketing – increased need for advertising and promotion • use of non–price competition • greater need for analysis and act upon market trends • develop a marketing strategy – may need short term finance • product portfolio – focus more on maternity wear or men's wear which the children's clothing retailer will not sell • change her buying strategy – what sells best rather than 'what she personally likes' • consider other channels of distribution including

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Question			Answer	Marks	Guidance
			Level 2 (6–10) Candidate shows reasonable knowledge and understanding, analysis and evaluation of possible effects on *Mostly Kids* of a major children's clothing retailer opening in the locality. *The information has some relevance and is presented with limited structure. The information is supported by limited evidence.* **Level 1 (1–5)** Candidate shows limited knowledge and understanding of increased competition on a business with limited or no analysis and evaluation of the effects on *Mostly Kids* of a major children's clothing retailer opening in the locality. (NB – award maximum of four marks for non–contextualised impacts). *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.* **0 marks** no response or no response worthy of credit.		online • pricing strategy – more formal – cost plus/premium/ competitive • increase gross profit margin (higher prices/cheaper supplier) in order to survive • customer service – improved provision to fight the competition – reduce stock and clutter – add a changing room – extend opening hours (need to hire staff? – cost) • market position – affluent area – go upmarket? • need for increased product differentiation • develop a USP – ethical? environmental? personal service? • change of strategic objectives – niche? exclusive? • need to seek alternative suppliers – cheaper/higher quality? • need for better stock control and cash flow management to increase the business' chances of survival • limited funds, time and energy to respond to the competition • need for more capital/expertise – take on a partner • reduce risk by becoming an ltd • side street location – Front Street more accessible – major affect? • local population increasing/households with children increasing – limited effect? • problem is not with the competition (plenty of target market in Whickham – static population – 21% of population under 20 and 29% under 44) but with the way Barbara is running the business • risk of business failure/closure – loss of Barbara's livelihood – no savings? – child to support • major effect – previously had no direct competition

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Question			Answer	Marks	Guidance
					• external economies of scale/more customers in the area • better infrastructure/regeneration of Front Street. Candidates can consider impacts on any aspect of the business.

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APPENDIX 1 – Grid for Specimen Assessment Material Component 1

Question	AO1	AO2	AO3	AO4	Total	Quantitative skills
Section A						
Questions 1–15	7	8(6)	-	-	15	(6)
Sub–Total	7	8	-	-	15	6
Section B						
16	4	-	-	-	4	
17	-	1(1)	-	-	1	(1)
18(a)	1(1)	2(2)	-	-	3	(3)
18(b)	2(2)	2(2)	-	-	4	(4)
18(c)	-	1	-	-	1	
19	2	2	4	4	12	
20	2	2	8	8	20	
Sub–Total	11	10	12	12	45	8
Total	**18**	**18**	**12**	**12**	**60**	**14**

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Oxford Cambridge and RSA

AS Level in Business

H031/01 The local business environment

Sample Resource Booklet

Time allowed: 1 hour 30 minutes

Instructions to candidates

- This is a resource booklet
- You should refer to it when answering the examination questions which are printed in a separate booklet
- The business described in this Case Study is a real business

Information

- This document consists of **4** pages. Any blank pages are indicated.

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Mostly Kids

In January 2012 Barbara French, aged 25 and expecting her first child, decided to leave her full–time job as a hospital catering assistant. Barbara had a passion for fashion. She wanted to set up her own shop selling reasonably priced children's clothing and fashionable maternity wear. Barbara carried out some secondary research (see Figs. 1 & 2) and decided that Whickham, an area 110 miles from her home town, would be a good location for her shop.

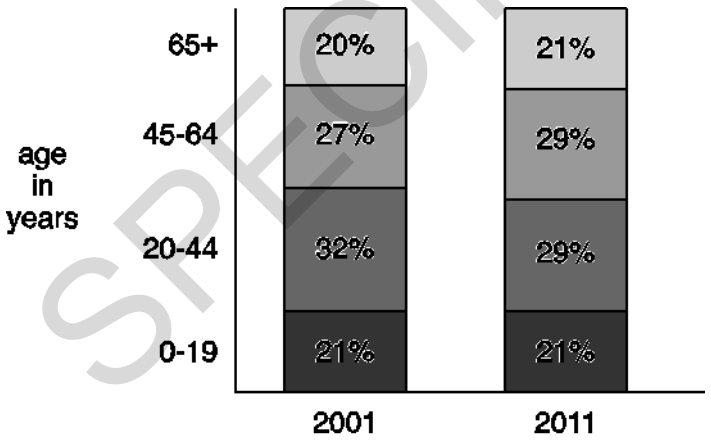
Fig. 1 Barbara's secondary research about Whickham

Whickham is a middle class town in the north east of England. Whickham is a relatively affluent commuter town, with both privately owned and rented accommodation. The main retail area in Whickham is on Front Street. All of the shops on Front Street are small, mainly supplying local residents.

In 2011:

- total population was 16 764, an increase of 3.5% since 2001
- 51.3% of the population was female
- 26.5% of households had dependent children, an increase of 11.6% since 2001

Fig. 2 Age profile of the population of Whickham in 2001 and 2011



In spring 2012, Barbara, unable to afford to rent a property on Whickham Front Street, rented a small retail property in a side street just around the corner. Operating as a sole trader, Barbara opened her own clothing shop, *Mostly Kids*, selling clothes for children under 11 years of age and women's maternity wear. She lived in the small flat above the shop and spent her entire £3000 savings setting up the business.

Barbara was pleased that *Mostly Kids* seemed to have no direct competition in the town. The only other clothes retailer (located on Whickham Front Street) sold formal clothes such as bridal gowns and prom dresses. With a baby due at any moment, there was no time for Barbara to undertake any promotional activity for the opening of the new shop.

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Barbara bought children's clothing and fashionable maternity wear from a wholesaler she knew over two hour's drive away. She planned to spend approximately £1000 on stock each time she visited the warehouse (wholesale prices ranged from 25p for small items such as children's socks to £8 for maternity jeans). Loving clothes and being obsessed by fashion, Barbara's product–orientated approach led her to always buy modern clothes which she personally liked. Barbara priced the goods according to what she would be willing to pay for them as a customer. With prices starting from as little as 75p for children's clothing and £4 for maternity wear, she considered *Mostly Kids* clothing affordable and reasonably priced.

Barbara's projected figures for *Mostly Kids* are shown below (Figs. 3 and 4).

Fig. 3 Cash flow forecast for *Mostly Kids* for the first year of trading

	Quarter 1 (Apr 2012–Jun 2012)	**Quarter 2 (Jul 2012–Sep 2012)**	**Quarter 3 (Oct 2012–Dec 2012)**	**Quarter 4 (Jan 2013–Mar 2013**
Cash inflows (sales revenue)	£5000	£8000	£12 000	£15 000
Cash outflows	£9000	£9000	£6000	£6000
Net cash flow	(£4000)	(£1000)	£6000	£9000
Opening balance	£3000	(£1000)	(£2000)	£4000
Closing balance	(£1000)	(£2000)	£4000	£13 000

Fig. 4 Income and expenditure budgets for *Mostly Kids*

	Year 1 (Apr 2012–Mar 2013	**Year 2 (Apr 2013–Mar 2014)**	**Year 3 (Apr 2014–Mar 2015)**
Budgeted income	£40 000	£50 000	£60 000
Budgeted expenditure	£30 000	£32 500	£35 000

The financial results for *Mostly Kids* have, however, been disappointing. Barbara's initial budget figures have, so far, proved highly inaccurate. The business has not done as well as she had hoped. With Barbara's childcare arrangements meaning that the shop can only be open from 10am to 3pm and on just five days per week, the business is struggling to survive. On some days Barbara only serves a handful of customers.

Barbara, by her own admission, loves buying clothes. *Mostly Kids* now holds far too much stock for the space available. Indeed, the shop still has some seasonal stock left over from the business' first summer of trading. Barbara has begun to think that some visitors might be more willing to buy if the clothing could be tried on, but the current premises are already cramped – there is no space for a changing room.

Barbara is concerned about the future of her business, not least because she has heard that a major children's clothing retailer may soon be coming to Whickham Front Street.

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