GradeMax

Mark Scheme (Results)

Summer 2015

Pearson Edexcel International Advanced Subsidiary

WBS01/01 Business Studies

Unit 1: Business Enterprise

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Summer 2015
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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

N.B. If part (a) of the question is INCORRECT, then a maximum of 2 marks can be awarded for part (b).

Question Number	Question	Marks
1 (a)	*Mintel* produces marketing reports that are a source of secondary research. Which one of the following is also a source of secondary research? **Answer B** – Government statistics	1
1 (b)	Explain why this answer is correct: • Secondary research (also known as desk research) is processing data collected by someone else that has not been designed specifically for the business requiring the information. (1) • Data collected by government departments are compiled into different reports, such as information about demographics, which can then used by businesses to help with business planning decisions. (1) • This is an example of secondary research because the government has already compiled these statistics, which then can then be used by businesses for their own purposes. (1) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect: Telephone surveys are not sec research because they are undertaken by the business itself rather than someone else providing the data. (1) • C is incorrect: Focus groups are usually undertaken by the business itself to gain customer views and opinions at first hand on things such as branding or new products and as such are unique to the business and therefore is primary research not secondary. (1) • D is incorrect: Supplier visits would be normal business practice to take orders, check quality of products, delivery performance or contractual issues; they may be used as a type of primary research (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Question Number	Question	Marks
2 (a)	The retail price of *Amazon*'s Kindle e-reader fell by 60% between 2012 and 2013. The **most likely** was that **Answer C**- price of substitutes decreased	1
2 (b)	Explain why this answer is correct: • Substitute goods are goods that can be used to satisfy the same needs in place of another. (1) • As the prices of substitutes fall, the demand for other (more expensive) goods fall and companies like Amazon need to respond. (1) • In order for Amazon to stay competitive they reduced the prices of their Kindles to respond to market forces. (1) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect - An increase in sales tax is likely to lead to an increase in prices overall and a reduction in demand. (1) • B is incorrect - An increase in consumer income would increase demand and there would be no need to decrease prices. (1) • D is incorrect – A decrease in the choice of brands would offer fewer options to purchase substitutes meaning more market share for Amazon and prices would be likely to hold or increase. (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Question Number	Question	Marks
3 (a)	*Sportsaquatic.com* is a successful online retailer offering specialist swimwear for competitive swimming teams. Sportsaquatic is an example of a business operating in a **Answer D** – A niche market	1
3 (b)	Explain why this answer is correct: • A niche market is a small market targeted at a specific portion of a larger market, often with certain specialist and/or distinctive requirements. (1) • *Sportsaquatic.com* target the smaller specialist market of swimming enthusiasts and teams. (1) • This group is a specialist and narrow portion of the overall swimwear market because of its products. (1) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect because a test market refers to a limited introduction of sportswear to a new target market to gauge customer perceptions about the product before launching into a wider market. (1) • B is incorrect because *Sportsaquatic.com* is an online virtual retailer that does not offer face to face marketing opportunities directly to customers as there is no real store to visit (1) • C is incorrect because *Sportsaquatic.com* offer specialist swimwear to a very specific group of sports enthusiasts rather than all potential customers interested in swimwear. (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Question Number	Question	Marks
4 (a)	The Small Business Service of *HSBC* advises some of its new business clients to use cost-plus pricing (a) A new business might use cost plus pricing because it: **Answer: C –** is easy to administer	1
4 (b)	Explain why this answer is correct: • Cost plus pricing takes all the known costs of production and adds a percentage mark up to calculate the selling price. (1) • Cost plus pricing uses a relatively simple formulaic approach to pricing and does not need expensive/time consuming research into market conditions. (1) • It is easy to administer because pricing can be calculated quickly, invoices can be checked and approved easily and quickly which mean less time and money is spent on administration (1 mark) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect - cost plus pricing cannot always get the market price correct because it does not take into account whether customers are making purchasing decisions based on price alone, for example, if customers are counting the pennies the price may be too high or for some goods customers are prepared to pay more and the price may make the goods appear lower value. • B is incorrect because hidden costs such as rent, lighting, etc are not always taken into account when calculating gross profit and these can may be missed off when using a cost plus pricing strategy. (1) • D is incorrect because if the price is not set at a level where customers will buy there may be low/no sales that are not enough to cover overheads and no profits will be made; there has to be high enough sales to break even before the business makes any profit (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Question Number	Question	Marks
5 (a)	*Kellog's*, gave free samples to shoppers when launching its White Chocolate Krave cereal. Which **one** of the following is likely to be the **main reason** why *Kellogs* offered free samples? **B- to encourage sales**	1
5 (b)	Explain why this answer is correct: • Free samples are a small amount of a product given to consumers who may not have tried the product before. (1) • Consumers often need an incentive to try a new product, to remove barriers and develop a taste for it so free samples are offered. (1) • Sales usually increase after product trials and repeat purchases will occur when the consumer tries, likes and becomes loyal to a product and they buy it regularly. (1) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect because the offer of free taste samples by *Kellog's* is a random marketing activity with results measured in increased sales rather than observations of selected sample groups or methods to consider any potential bias. (1) • C is incorrect because there is no attempt to target anyone on grounds of age, gender, etc as the purpose of this kind of sampling is to encourage any potential customers to try and like a product with a view to purchasing later. (1) • D is incorrect because free product trials are to entice consumers away from their favourite brands regardless of money savings. (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Question Number		Marks
6 (a)	In 2013 the worldwide supply of rice decreased by almost 15%. Which **one** of the following is the **most likely** reason for this? **Answer: B – Storms and floods across Asia destroying crops**	1
6 (b)	Explain why this answer is correct: • Supply is the total amount of a good or service that producers are willing and able to supply at a given price at a given time. (1) • Weather and climate are non-price factors that can affect supply. (1) • Storms and floods can wash away crop plantations which could mean the loss of a whole growing season, depending on the time of year of the floods. (1) Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example: • A is incorrect because an increase in the worldwide price of rice would (all other things being equal) lead to an increase in the quantity supplied because an increase in price would be an incentive for growers to plant more rice and increase supply. (1) • C is incorrect because the use of genetically modified crops is designed to prevent loss from disease, which would increase yield and therefore supply. (1) • D is incorrect because subsidies to EU farmers would be an incentive to increase planting of more rice crops which would lead to an aggregate increase in supply. (1) Any acceptable answer that shows selective knowledge/understanding/application and/or development. **N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.**	1-3 **(Total 4)**

Section B: Data response

Question Number	Question	
7	Explain **two** entrepreneurial characteristics displayed by Mr Xu (Evidence A)	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2 Analysis 2) **Knowledge / understanding:** Definition of entrepreneurial characteristics: e.g. personality traits that an entrepreneur will have in order to start and run a successful business. **Or** Identifies two separate entrepreneurial characteristics and develops through to application and analysis **Knowledge / understanding:** e.g. Creativity is essential for developing solutions to potential problems **Application:** Creativity and imagination is essential to Mr Xu in the design and development of property as he needs to have a vision of what he hopes to build. He states that he leads the imagination of the architects. (1) **Analysis:** Property development requires creativity and imagination because there will be many problems to resolve during major projects such as design decisions and the need to use alternative materials when original decisions cannot be fulfilled. (1) **Knowledge / understanding:** e.g. Resilience is essential to enable entrepreneurs to ignore critics, overcome obstacles and still keep going. (1) **Application:** Resilience is essential to Mr Xu as he attempts large projects that many people do not believe he can complete. The site developed by Mr Xu in Bejing was much worse than the Royal Albert Dock but is now a major business district (1) **Analysis:** Resilience has helped Mr Xu ignore his detractors by continuing to develop large scale business parks in China and go on to win a £1bn project in London. Mr Xu's investments helps businesses thrive and generate economic growth.(1) **Two characteristics must be covered for full marks (3+3). If only one aspect covered, maximum mark of 3.** **Award for any relevant and developed entrepreneurial characteristics**	2 1 1 1 1 1 1

Question Number	Question	
8 (a)	Explain two benefits to ABP of being a plc.	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge / understanding:** **Definition:** A public limited company (plc) can offer shares on a stock exchange to the general public (1) and shareholders are only limited to potentially lose the value of the amount paid for the shares. (1) **Benefit 1 (monetary amount of potential finance available):** **K / U:** The main benefit to *ABP* of being a plc is that it can raise considerable finance by selling shares on a stock exchange (1) **Application**: *ABP* undertakes large multi-million pound projects that require huge amounts of capital to finance major projects (1) **Analysis:** If *ABP* decides to float a new share issue it will be able to support the development of the different phases of the £1bn Royal Albert Dock project. (1) **Benefit 2 (potential financial options available):** **K / U:** Limited liability means that each shareholder cannot be held responsible for the company debts beyond the worth of their shares (1) **Application:** Mr Xu/ABP needs to attract considerable amount of finance t (1) **Analysis:** Investors are more likely to consider investing if personal assests are not at risk. (1) **Knowledge / definition of public limited company, application of features and analysis of reason / cause / consequence / cost must be covered for full marks.** **Award maximum of 3 marks for only one benefit**	1-2 1-3 1-3

Question Number	Question	
8 (b)	*ABP* is encouraging Chinese businesses to purchase properties on the Royal Albert Dock project. (Evidence B) (b) Explain one impact that an appreciation of the pound sterling (£) might have on Chinese purchasers.	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge / understanding:** up to 2 marks Exchange rates – the value/price of one currency in terms of another. (1) Appreciation – the gradual rise in value/price of a currency against another currency. (1) **Application:** up to 2 marks Chinese business are looking for a European presence and consider the Royal Albert Dock project/ London a potential gateway to UK and European economies (1) Chinese currency will need to be changed into sterling in order to invest I n this project (1) **Analysis:** An appreciation in £ sterling means that properties purchased on the Royal Albert Dock will be more expensive as more Yuan will be needed for the same number of £ (1) Chinese businesses may reduce the investment made in properties in Royal Albert dock instead placing their money in other countries where currency appreciation has not taken place. (1). **Knowledge / definition of exchange rates / appreciation of currency, application of features and analysis of reason / cause / consequence / cost must be covered for full marks.**	1-2 1-2 1-2

Question Number	Question	
9 (a)	Using the above information, calculate *APB*'s profit for the year margin	(4 marks)
	Answer	Mark
	(Knowledge 1, Application 3) **Knowledge: (1)** Profit for the year/total revenues x 100 **Application:** 16420 (1) /50017 (1) x 100 = 32.8% (1) (accept 33%) **Candidates who give correct answer without formula shown gain full marks.** **N.B. answer must be expressed as a percentage, if not maximum 3 marks.**	1 1-3

Question Number	Question	
9 (b)	Assess why the use of retained profits might be a suitable source of finance for the Royal Albert Dock project	(8 marks)

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of retained profits must be present.	For example, Definition of retained profits: any remaining profits which are kept (retained) in the business for reinvestment in its operations rather than paid out to shareholders
2	3-4	Application must be present,	For example, Retained profits are available from ABP's current operations such as revenue, rent and sales from their other business parks
3	5-6	Analysis in context must be present, **N.B. if analysis is not in context, limit to Level 2.**	For example, Using retained profits will reduce the need to seek as much funding from European banks, reducing the amount of interest that would be payable to the banks For example, This may avoid the need for share issues which means more shareholders to pay dividends to and could leave the company open to potential takeover if enough shares were bought by one stakeholder. Retained profits do not dilute the ownership of the company For example, In using retained profits the business has more flexibility. Management has control over how they are reinvested and what proportion is kept rather than paid as dividends
4	7-8	Evaluation must be present and in context, Award **7 marks** if one side only is in context. Award **8 marks** if BOTH sides are in context. **N.B. if evaluation not in context, limit to Level 3.**	For example, However, whilst retained profits are relatively cheap. The cost of capital is the opportunity cost to shareholders of leaving profit in the business compared to return on their investment from elsewhere. For example, if retained profits do not result in higher

			profits, shareholders could decide they can make better returns elsewhere and sell their share on the stock market which may send out the message that shares in *ABP* is not a good investment For example, However, the directors of ABP may get a bad press for restricting the value of dividends to shareholders and for holding too much cash in the business.

Question Number	Question	
10	Assess the impact on **two** stakeholders of *ABP*'s Royal Albert Dock project.	(12 marks)

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of stakeholders must be present	For example, stakeholders are any party that has an interest in the outcome of a business decision or action. Usually owners, shareholders/ investors, employees, customers, suppliers
2	3-4	Application must be present, i.e. the answer must be contextualised	For example, Customers such as the Asian and Chinese businesses showing a strong interest in moving to London will be expecting to move into their new premises from 2017. For example Investors such as European banks and private equity firms will expect each phase to be completed on time and to budget to protect their investment
3	5-6	Analysis in context must be present, i.e. candidate will explain how a stakeholder might be affected by the success of ABP's Royal Albert Dock project **N.B. if analysis is not in context, limit to Level 2.**	For example, The Asian and Chinese businesses will be able to trade more easily with the UK and European markets which will increase trading opportunities. For example European banks and private equity firms will expect a return on their investment and need to be confident that the Royal Albert Dock project will be completed on time so that the completed properties will be sold or rented to generate income to pay them back.

Level	Mark	Descriptor	Possible content
4	7-12	**Low Level 4:** 7-8 marks. Evaluation must be present and in context on one side **Mid Level 4:** 9-10 marks. Evaluation must be present and in context on both sides to illustrate **High Level 4:** 11-12 marks. Evaluation is developed to show a candidate's real perceptiveness. Several strands may be developed: the answer is clear, coherent and articulate, leading to a convincing conclusion. **N.B. if evaluation not in context, limit to Level 3.**	For example However, if the project goes over budget or is not finished on time, Asian and Chinese businesses may decide it is too expensive or too late and invest elsewhere in Europe For example However, if the project goes over budget or is not finished on time, the properties may not be sold or rented and the European banks and private equity firms may call in their loans and investments which could endanger the future of the project and ABP Holdings Group For example, However, all stakeholders do not necessarily have the same motivations or self-interest and there may be conflict between each others needs and expectations, investors will require the highest possible return on investments and purchasers will want the best/lowest possible price For example, In order to maximise profits, ABP will need to manage costs. Labour is one of the highest costs in any organisation and this could impact on the employees of the organisation both in the construction project and when the Royal Albert Dock business park is completed.

Question Number	Question	
11	The Royal Albert Dock project will be built in five phases, each costing £200m. Evaluate the extent to which a cash flow forecast can help to manage the finances of the Royal Albert Dock project.	(14 marks)

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of *Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.*	For example, Cash flow forecasting is a form of budget which enables a business to plan future cash requirements to avoid liquidity issues.
2	3-4	Application must be present, i.e. the answer must be contextualised and applied to cash flow forecasting *Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present that affect clarity and coherence.*	For example, this a complex and large-scale project involving multiple sources of finance and great uncertainty over its potential For example, Mr Xu cheerfully admits the finance has not yet been arranged but because the project is in five stages he does not actually need to raise £1bn.
3	5-8	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/ consequences of cash flow forecasting **N.B. if analysis is not in context, limit to Level 2.** *Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.*	For example, ABP can use cash flow forecasts for each phase of the project to identify potential shortfalls in their cash balance in advance and take steps to manage this event For example, The European banks and private equity firms are likely to request cash flow forecasts before agreeing to any finance agreements such as advances or loans and will want updates at regular intervals For example, It is important that ABP manages cash flows on each phase of the project because if it runs out of cash they may not be able obtain finance for the next stage.

Level	Mark	Descriptor	Possible content
4	9-14	**Low Level 4:** 9-10 marks. Evaluation must be present and in context on one side, **Mid Level 4:** 11-12 marks. Evaluation must be present and in context on both sides, **High Level 4:** 13-14 marks. Evaluation is developed to show a candidate's real perceptiveness. Several strands may be developed: the answer is clear, coherent and articulate, leading to a convincing conclusion. **N.B. if evaluation not in context, limit to Level 3.** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.*	For example, However cash flow forecasting is only a projected budget and can only account for potential costs and revenues in the development. For example, there are many unexpected events that can alter cash projections such as changes in costs, late payments, changes in suppliers terms and conditions and problems with financing. For example, There is a danger that reliance on cash flow forecasting may be too simplistic for a development of the size and complexity of the Royal Albert Dock development and that they should use other forms of budgets and planning to ensure the success of the project. For example, cash flow forecasts are usually more accurate over a short period of time. The further ahead they are projected the less reliable they become. As this project is over five phases there is a danger in placing too much reliance on this rather simplistic method.

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