GradeMax



Mark Scheme (Results)

Summer 2018

Pearson Edexcel International
Advanced Subsidiary
in Business Studies (WBS01)
Paper 01 Business Enterprise

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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)	Fast food chain *McDonald's* consistently reaches number one in the Top 100 Global Franchise Rankings. Which one of the following is an advantage of buying a *McDonald's* franchise? Answer: A (Using an established brand name)	1
1 (b)	**Explain why this answer is correct:** • Definition of a franchise: e.g. A way of running a business that allows an individual or business to pay for the right to use another firm's branding, product knowledge and systems for a prescribed period of time. **(1)** • *McDonald's* is a global fast food chain and recognised by consumers everywhere and symbolised by its golden arches. **(1)** • Which means buyers of *McDonald's* franchises will find it easier and much less risky to build a fast food business rather than starting with an unknown and new business name. **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • B is incorrect because franchisees cannot make all the decisions because some decisions are made by the franchisor **(1)** • C is incorrect because the franchisor controls the suppliers. **(1)** • D is incorrect because the franchisee will be required to pay a share of profits to the franchisor **(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)	Footwear retailer *schuh* sells branded leisure, sport and fashion shoes for men, women and children. (a) The **most likely** reason for *schuh* to use market segmentation is to: Answer: C (more effectively target its market)	1
2 (b)	**Explain why this answer is correct:** • Definition of market segmentation: Categorises potential customers according to characteristics based on gender, age, income, etc. **(1)** • By segmenting the market *schuh* can match its shoes to consumer wants/needs more accurately. **(1)** • This means it can potentially increase sales and profitability/reduce the threat of direct competition. **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • A is incorrect because market segmentation increases the range of products *schuh* will need to offer to meet the needs of the different segments it caters for. **(1)** • B is incorrect because *schuh* will still need to do market research into the changing tastes and preferences of its market segments. **(1)** • D is incorrect because *schuh* still needs to advertise in order to increase awareness of its products to different segments. **(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)	*Marketing Sciences Ltd*, specialise in carrying out product trials for other companies such as *Tesco*, *GlaxoSmithKline* and *Vodafone.* Businesses carry out product trials on new products in order to: Answer: B (assess levels of demand)	1
3 (b)	**Explain why this answer is correct:** • Definition of product trials, e.g. launches a product on a limited scale to measure initial reactions from potential customers. **(1)** • Companies like *Tesco* can use feedback from customers to adapt or modify its products. **(1)** • If demand is low products can be modified before a national launch, increasing the likelihood of a successful launch. **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • A is incorrect because product trials are only assessing what consumers think about a product and the product could still fail even after product trials. **(1)** • C is incorrect because product trials may not achieve economies of scale due to smaller production runs. **(1)** • D is incorrect because products trials are a method of primary research as they are collecting first-hand information directly from the consumer. **(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
4 (a)	In 2016 David Hay started his own business, *Hays Gardening and Landscapes*. David was previously an employee of another business. (a) What was the opportunity cost for David when he started his business? Answer: B (Loss of earnings through employment)	1
4 (b)	**Explain why this answer is correct:** • Definition of opportunity cost: the cost of the next best alternative foregone. **(1)** • David Hay had to choose between being self-employed or receiving an income from paid employment. **(1)** • The result is the sacrifice of a regular secure income for the potential of higher income he might generate from self-employment. **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • A is incorrect as any marketing costs for *Hays Gardening and Landscapes* are a cost to the business and not the next best alternative for David Hay. **(1)** • C is incorrect because paying taxes on profits is a legal requirement for businesses and not an alternative option/ as an employee David paid income tax which as a sole trader he will now have to pay on his profits so is not an opportunity cost for David **(1)** • D is incorrect as risking business failure is a characteristic of an entrepreneur not the opportunity forgone to run your own business/risk of business failure only occurs after the business is up and running and is not an opportunity cost of starting a business **(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)	In 2016, UK corporation tax was 20%. Initially a decrease in corporation tax will **most likely** lead to Answer: A (increased retained profit)	1
5 (b)	**Explain why this answer is correct:** • Definition of retained profit: any remaining profits after taxes and dividends, which are kept (retained) in the business. **(1)** **OR** • Definition of corporation tax: a tax on profits **(1)** • If corporation tax is reduced from 20%, companies will pay less in tax. **(1)** • This means companies will be able to increase the level of their retained profits **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • B is incorrect because wages are unlikely to decrease because paying less tax could lead to more retained profit and an increase in wages. **(1)** • C is incorrect because fixed costs are not affected by increase or decreases in corporation tax. **(1)** • D is incorrect because companies are more likely to hold or decrease their selling price if there are tax savings as they are not expecting to make higher tax payments. **(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
6 (a)	In 2016, 49% of the food grain crop in the state of Karnataka (India) failed due to a lack of rainfall. Which **one** of the following will be the **most likely** impact of the food grain crop failure? Answer: B (a shift in the supply curve of food grains to the left)	1
6 (b)	**Explain why this answer is correct:** • Definition of supply: the amount a producer is willing and able to supply at a given price in a given time period. **(1)** • Lack of rain meant that almost half the food grain crops had failed which meant less grain could be supplied. **(1)** • The supply curve will shift to the left because the amount of food grain available will be reduced no matter what price people are prepared to pay. **(1)** **Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:** • A is incorrect because a shift in the supply curve to the right would indicate an increase in the supply of food grains. **(1)** • C is incorrect because movement along the supply curve would only occur if the demand curve shifts/change in price causing a movement along the supply curve. **(1)** • D is incorrect because the decrease in the price of food grains would only occur if there had been an increase in supply or a fall in demand **(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** benefits to Hamdi of being the sole owner of the company.	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2 Analysis 2) **Knowledge/understanding:** identifies **two** separate benefits and develops through to application and analysis e.g. controls all aspects of the business **(1)** does not have to share the profits **(1)** **Application:** Hamdi decided not to use specialist managers/venture capitalists **(1)** He reinvested profits to expand the business. **(1)** **Analysis:** Hamdi does not have to take into account the views of others that might conflict with his own **(1)** Hamdi would not need to pay dividends to any other shareholders. **(1)** **Two benefits must be covered for full marks (3+3). If only one aspect covered, maximum mark of 3.** **Award for any relevant and developed benefits**	1-2 1-2 1-2

Question Number	Question	
8 (a)	Explain **two** reasons why Hamdi might have prepared a business plan for the company.	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge/understanding:** definition of a business plan e.g a written document setting out the purpose and goals of the business; describing its products/services and target markets, stating how the business plans to achieve its financial, marketing and operational goals. **(2)** **OR** Identifies **two** separate reasons and develops through to application and analysis e.g. to obtain financial investment. **(1)** Sets out how Hamdi will operate the company. **(1)** **Application:** up to 2 marks for applying contextual answers: e.g. Hamdi wrote the business plan for use by the bank and SBA. **(1)** He planned his packaging, placement and sales objectives before launching the company. **(1)** **Analysis:** up to 2 marks are available for a reason/cost/cause/consequence: e.g. The business plan helped convince the bank/SBA that the company deserved the finance. **(1)** Clear objectives meant that Hamdi knew what he needed to do to make and measure the company's success. **(1)** **Two reasons must be covered for full marks (3+3). If only one aspect covered, maximum mark of 3.** **Award for any relevant and developed response**	1-2 1-2 1-2

Question Number	Question	
8 (b)	Explain **two** features of *Chobani*'s products that give it a competitive advantage.	(6 marks)
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge/understanding:** up to 2 marks for defining/explaining that competitive advantage is a unique aspect of the business that competitors cannot easily imitate which can be based on innovation/reputation/relationships/quality/cost/price. **(2)** **OR** Identifies two features such as family recipes **(1)** or thicker/less sugary yogurt **(1)** **Application:** up to 2 marks for applying contextual answers: Features of products contributing to *Chobani*'s success Includes hiring a master yogurt maker from Turkey to perfect his mother's recipes **(1)** They are designed to be the opposite to the watery/sugary yogurts common in the US market **(1)** **Analysis:** up to 2 marks. This approach to product development may introduce new flavours giving customers the option to choose *Chobani*'s unusual flavours not offered by competitors. **(1)** Introducing a thicker, less sugary yogurt could be seen to be a healthier option which can be viewed as much higher quality than the current watery, high sugar yogurts available. **(1)** **Two features must be covered for full marks (3+3). If only one aspect covered, maximum mark of 3.** **Award for any relevant and developed response**	1-2 1-2 1-2

<table>
<tr><th>Question Number</th><th>Question</th><th></th></tr>
<tr><td>9 (a)</td><td>The following information is an extract from Chobani's Statement of Income for the Year Ending 30 April 2017.

<table>
<tr><th>Extracts</th><th>$million</th></tr>
<tr><td>Total Revenues</td><td>1 340</td></tr>
<tr><td>Cost of Sales</td><td>(676)</td></tr>
<tr><td>Gross Profit</td><td>664</td></tr>
<tr><td>Expenses</td><td>(224)</td></tr>
<tr><td>Profit for the Year</td><td>440</td></tr>
</table>

Using the above information, calculate Chobani's profit for the year margin to one decimal place. (Show your working)</td><td>(4 marks)</td></tr>
<tr><td></td><td>Answer</td><td>Mark</td></tr>
<tr><td></td><td>(Knowledge 1, Application 3)

Knowledge: Correct formula for calculating profit for the year margin

(Profit for the Year / Total Revenues) x100 = Profit for Year Margin (1)

Application: 440 (1) /1340 (1) x 100 = 32.8% (1)

Candidates who give correct answer without formula shown gain full marks (knowledge implied).

Candidates who give answers to more than one decimal place will gain full marks if accurate.

Answer must be expressed in %, if not maximum 3 marks</td><td>1

3</td></tr>
</table>

Question Number	Question			
9 (b)	Assess the benefits to *Chobani* of offering its products to a mass market.			(8 marks)
Level	Mark	Descriptor	Possible content	
1	1-2	Knowledge/understanding of a mass market must be present *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, a mass market is not segmented and has large number of customers for standardised products	
2	3-4	Application of *Chobani*'s approach to a mass market must be present; *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, *Chobani* deliberately avoided distribution through specialty stores For example, *Chobani* insisted on being placed in the dairy aisles alongside existing yogurt brands in supermarkets	
3	5-6	Analysis in context must be present based on reasons/causes/costs/consequences **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, by selling in a mass market potentially higher sales levels could be achieved meaning *Chobani* could hit their break even targets more quickly than in more niche specialty stores For example, higher sales leading to exploitation of economies of scale which would reduce average costs and increase profitability	
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 there is evaluation but no context at all, limit to Level 3.** *Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be*	For example, there tends to be less customer loyalty for mass market goods than niche products so consumers could easily choose a different yogurt in the supermarket For example, there is more powerful competition in mass markets e.g. *Danone* and *Yoplait*, making it harder for new products to get noticed and to succeed	

		found but the writing has overall clarity and coherence.	

Question Number	Question			
10	Assess the suitability for *Chobani* of using a cost-plus pricing strategy.			(12 marks)
Level	Mark	Descriptor	Possible content	
1	1-2	Knowledge/understanding of pricing strategies *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, pricing strategies refer to the method(s) used by businesses to decide how the prices of their products and services will be set For example, cost-plus pricing where a standard percentage mark-up is added to the production costs of a product or service to establish a selling price	
2	3-4	Application must be present, i.e. the answer must be contextualised applied to the benefits of cost-plus pricing strategies used by Hamdi *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, Hamdi calculated costs of their yogurt, packaging, ingredients and labour For example, Hamdi was able to calculate the price needed to reach the break-even sales target of 20,000 cases per week	
3	5-6	Analysis in context must give reasons for the reasons/cause/consequences/ costs of using cost-plus pricing strategies **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, cost-plus pricing ensures that *Chobani*'s total costs are covered For example, it is a simple and quick method of calculating the selling price	
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	For example, if *Chobani* is using a simple cost-plus strategy, it may lead to prices that are higher than competitors', resulting in lower than expected sales	

		and in context on both sides to illustrate the suitability of cost-plus pricing for *Chobani.* **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 there is evaluation but no context at all, 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, cost-plus pricing takes no account of prevailing market conditions For example, by launching at a price that would enable *Chobani* to break even quickly, Hamdi could have used a psychological pricing strategy with slightly lower than rounded numbers such as $1.99 so customers will perceive the prices as lower than they really are For example, as the new *Chobani* yogurt products were so much thicker and less sugary than existing products, Hamdi could have used premium pricing to support perceptions of higher quality products

Question Number	Question			
11	Evaluate Hamdi's decision to use bank loans rather than venture capital as a source of finance for company expansion.			(14 marks)
Level	Mark	Descriptor	Possible content	
1	1-2	Knowledge/understanding of bank loans and venture capital as a source of finance must be present *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, a bank loan is the most common source of loan finance for a business. Usually medium to long term finance with a fixed period over which the loan must be paid, the rate of interest, the frequency and amount of repayments For example, venture capital is money provided by investors to risky start-up or emerging growth companies with potential for high returns, usually in return for a say in company decisions and a portion of the equity (ownership)	
2	3-4	Application must be present, i.e. the answer must be contextualised and applied to the commercial operations of Hamdi and *Chobani* *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, Hamdi received a 90% bank loan at low interest over 10 years to buy the factory to start *Chobani* For example, venture capital investors may want take their cash out in five to seven years	
3	5-8	Analysis in context must be present, i.e. the candidate must give reasons for deciding what the impacts of taking out bank loans are for Hamdi and *Chobani* (Reasons/causes/costs/consequences) **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, the first bank loan meant he could start a viable yogurt making business and retain full ownership and control For example, bank loans would mean that he would be able to make regular payments and to plan his cash flow For example, venture capitalists may want a fairly quick return on their investment whereas Hamdi	

			could take his time in building the business by using bank loans For example, venture capitalists will have wanted a say in how the business was run and the direction it was taking whereas a bank does not control the business
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 there is evaluation but no context at all, 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, Hamdi would still be required to pay the loan repayments even if the factory was not making any money For example, venture capitalists will not take money out of the business in the early years, unlike a bank thus improving cash flow For example, venture capitalists may have brought more expertise into the business and helped it grow more quickly For example, banks will charge interest on their loans thus increasing costs For example, venture capitalists are more likely to take risks than banks when dealing with unusual companies, such as yogurt makers For example: banks may require collateral or a personal guarantee which means Hamdi could lose personal or business assets if the loan repayments were not kept up

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