

Mark Scheme (Results)

January 2019

Pearson Edexcel IAL

In Economics (WBS03)

Paper 03 Stratgic Business Decisions

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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: Data response

Question Number	Question	
1 (a)	What is meant by the term private limited company? (Evidence A, line 3)	2 marks
	Answer	Mark
	Knowledge – up to 2 marks: • Usually a small/medium sized business entity separate from the people who own/run it **(1)** which limits shareholder liability to the value of shares issued **(1)** • Shares are owned by friends/family **(1)** that is not listed/traded on the stock market **(1)** 1 mark for partial or vague definition but a valid example lifts to 2 marks. • Any other suitable alternative.	1-2 marks

Question Number	Question	
1 (b)	What is meant by the term risk? (Evidence B, line 5)	2 marks
	Answer	Mark
	Knowledge – up to 2 marks: • A potential threat to the success of an enterprise **(1)** that could cause problems/failure/loss of money **(1)** 1 mark for partial or vague definition but a valid example lifts to 2 marks. • Any other suitable alternative.	1-2 marks

Question Number	Question	
2	Explain how the diversification shown in Evidence A can affect company growth.	6 marks
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 2) **Knowledge/understanding:** up to 2 marks for knowledge/understanding of how diversification can affect company growth, e.g. diversification will lead to having a wide range/large number of different types of products/productions **(1)** each aimed at different countries/markets/segments/audiences **(1)** **Application**: up to 2 marks are available for contextualised answers based on the application of diversification to *Love Productions*, e.g. evidence shows that *Love Productions* diversifies by making factual shows/documentaries and entertainment shows **(1)** The Great British Bake Off is licensed for production in 20 countries **(1)** **Analysis:** up to 2 marks are available for developing reasons/causes/consequence of diversification, e.g. company grows numerically as more shows are made for different countries/markets/segments/audiences **(1)** risk is reduced as shows are spread across different countries/markets/segments/audiences therefore growth is more likely to happen **(1)**	1-2 marks 1-2 marks 1-2 marks

Question Number	Question	
3	Liquidity is the ability of a business to meet its short term debts. Analyse the liquidity of *Love Productions*, using the figures in Evidence E.	8 marks
	Answer	Mark
	(Knowledge 2, Application 2, Analysis 4) **Knowledge/understanding:** up to 2 marks are available for showing liquidity formula. e.g. current assets ÷ **(1)** current liabilities **(1)** **Application:** up to 2 marks are available for using correct formula and calculating correct liquidity ratio/current ratio, current assets/current liabilities = liquidity ratio e.g. for 2016, 8 096 414 / 4 333 390 = 1.87 **(1)** e.g. for 2015, 7 479 947 / 2 911 386 = 2.57 **(1)** **Analysis:** Candidate analyses liquidity ratio/current ratio as calculated (own figure rule), using reasons/causes/ consequences/costs e.g. for 2016 liquidity ratio of 1.87 shows that *Love Productions* is relatively healthy from a liquidity point-of-view **(1)** as their current assets are greater than their current liabilities **(1)** e.g. for 2015, although the liquidity ratio of 2.57 shows that *Love Productions* is more than able to meet its liabilities **(1)** as it is over 2.0, there may be a concern that too much finance is tied-up in short-term assets **(1)** e.g. although healthy, the liquidity ratio has fallen between 2015 and 2015 **(1)** as a result of current liabilities rising by a greater proportion than the change in current assets **(1)**	1-2 marks 1-2 marks 1-4 marks

Question Number	Question	
4	Assess the profitability of Love Productions, by comparing its 2016 figures with its 2015 figures. Evidence D.	10 marks

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of what is meant by assessing profitability *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.*	e.g. comparing the profitability of 2016 with 2015 should indicate how well, or not, the business has done over time e.g. knowledge of correct formulae for profitability
2	3-4	Application must be present, i.e. the answer must be contextualised and applied to the figures in Evidence D. *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. Gross profit margin/profitability for 2016 is 33.1% from 34.4% in 2015 e.g. Profit for the year margin/profitability for 2016 is 6.2% from 13.8% in 2015

3	5-7	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of using profitability to analyse the performance of the business **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.*	e.g. profitability/gross profit margin has gone down e.g. profitability/profit for the year has gone down e.g. expenses have increased e.g. tax has increased e.g. overall profitability has declined y/y

4	8-10	Evaluation must be present and in context, when assessing the profitability of *Love Productions* **N.B. if there is evaluation but no context at all, then 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.*	e.g. difficult to come to any firm conclusions as only two year's figures given, would need more data to identify any trends e.g. Evidence D only gives limited data from overall business accounts, would need more data to make definitive assessment of financial performance e.g. profitability is only one aspect of business performance. e.g. something exceptional may have happened to the business or the way that it presents its financial figures, which is not explained in evidence D. e.g. fall in profit and exceptional increase in tax between 2015 and 2015 is not explained. e.g. that other ways of measuring and evaluating the performance of a business should be/could be used before drawing any conclusions

<table>
<tr><th>Question Number</th><th colspan="3">Question</th><th></th></tr>
<tr><td>5</td><td colspan="3">*Love Productions* has the option of selling the existing UK programmes to other countries or developing new versions that meet the individual needs of each country**.**

Assess the value to *Love Productions* of using Ansoff's matrix when making this decision.</td><td>12 marks</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td><td colspan="2">Possible content</td></tr>
<tr><td>1</td><td>1-2</td><td>Knowledge/understanding of Ansoff's matrix and how it is used to help decide a strategy

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.</td><td colspan="2">e.g. Ansoff’s matrix is a decision-making model that can be used to help businesses analyse its strategic options/opportunities for growth

e.g. Ansoff's matrix can help a business to assess the degree of risk or resource requirements for each option</td></tr>
<tr><td>2</td><td>3-4</td><td>Application must be present, contextualised answers that illustrate how Ansoff’s matrix could have been used by *Love Productions* to identify its strategy for overseas markets

Alternatively: Candidate may draw Ansoff's matrix and label it, based on the stem of Question 5: See below.

Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.</td><td colspan="2">e.g. Ansoff’s matrix could have been used to help identify whether there is an opportunity for sales growth by selling its existing productions into new overseas markets

e.g. over 200 countries show the UK version of The Great British Bake Off and 20 have a license for their own version

e.g. different countries have different cultural and social requirements for their television programmes</td></tr>
<tr><td></td><td colspan="3"><table>
<tr><td></td><td>Existing Products</td><td>New Products</td></tr>
<tr><td>Existing Market</td><td>Market Penetration Strategy</td><td>Product Development Strategy</td></tr>
<tr><td>New Market</td><td>Market Development Strategy i.e. sell its existing productions</td><td>Diversification Strategy i.e. develop a new production for each</td></tr>
</table></td><td></td></tr>
</table>

			new market	
3	5-7	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs /consequences of using Ansoff's matrix in this context **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.*	e.g. Ansoff's matrix shows the relative risk of taking strategic decisions e.g. potential production needs or market entries are plotted on the matrix and the opportunities for growth and associated risks are considered e.g. Ansoff would indicate that selling existing programmes to new markets is less risky than developing new programmes for new markets	

4	8-12	Evaluation must be present and in context, giving the downside, exploring the problems associated with relying on Ansoff's matrix **Low Level 4:** 8-10 marks. Evaluation must be present i.e. a candidate balances their answer by identifying the problems associated with Ansoff's matrix **High Level 4:** 11-12 marks. Evaluation is developed to show a real perceptiveness on the part of the candidate. Several strands may be developed; the answer is clear and articulate, leading to a convincing conclusion. **N.B. if there is evaluation but no context at all, then 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.*	e.g. Ansoff's matrix is just one decision making model, others may be used and could give different readings of the situation for *Love Productions* e.g. formal market research in each market is likely to give *Love Productions* a better indication of the needs of each overseas market e.g. the indication of diversification as the best model will be the most expensive/least profitable option in an overseas market, and carries the greatest risk/highest likelihood of failure e.g. television programmes may need to be changed depending upon language and culture e.g. Ansoff's matrix may suggest opportunities/alternative ways of achieving growth, such as developing new productions for the existing market

Section B: Essay questions

Question Number	Question		
6	Evidence F states that *BSkyB* will become a major stakeholder in *Love Productions.* Assess *BSkyB*'s strategic decision to buy such a large share of a relatively small production company like *Love Productions.*		20 marks
Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of a strategic decision *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.*	e.g. a long-term choice made by a business to influence its future direction and aims
2	3-6	Application must be present, i.e. candidate must give a contextualised answer relating to the strategic decision by *Sky* to buy *Love Productions* **Low Level 2:** 3–4 marks. Application is weak, candidate identifies a basic reason **High Level 2:** 5–6 marks. Application is clear, candidate identifies reasons and gives detailed reference to *BSkyB* buying into *Love Productions* *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. *Love Productions* is an award winning business e.g. *BSkyB* already owns a large media company e.g. Evidence A shows that *Love Productions* make award winning television programmes e.g. *Love Productions* already distributes to over 200 countries e.g. *Love Productions* is a private limited company

3	7 -12	Analysis in context must be present, i.e. the candidate must analyse the fact that *BSkyB* is buying a major share of *Love Productions*, giving reasons/causes/ costs/consequences of this **Low Level 3:** 7–9 marks. Analysis limited: only one or two reasons/causes/costs or consequences are outlined. **High Level 3:** 10–12 marks. Analysis is more developed: two or more reasons/causes/costs and/or consequences are outlined and developed. **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.*	e.g. the status of BSkyB would be enhanced by acquiring such an award winning portfolio of programmes e.g. buying a major stake in a successful business will please *BSkyB* shareholders e.g. it will give *BSkyB* access to *Love Productions* resources e.g. being a major stakeholder in *Love Productions* would give *BSkyB* access to markets in 200 countries beyond Europe e.g. a major share of *Love Productions'* revenue would be worth having as it is a profitable company e.g. it will help achieve further economies of scale by combining resources including spreading risk and sales and distribution e.g. *Sky* may have had to make such a large offer to convince the shareholders of the private limited company to sell

4	13-20	Evaluation must be present and in context, based on the drawbacks of buying a major stake in *Love Productions* **Low Level 4:** 13–14 marks. Some evaluative points are made, referring to the drawbacks of **Mid Level 4:** 15–17 marks. Candidate gives a range of comments on the drawbacks of the strategy of buying a major stake in *Love Productions* **High Level 4:** 18–20 marks. Candidate gives a wide range of arguments, to highlight the drawbacks of buying a major stake in *Love Productions* Several strands may be developed; the answer is clear and articulate leading to a convincing conclusion. **N.B. if there is evaluation but no context at all, then 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.*	e.g. the potential of *Love Productions* may not be realised, and buying a major stake could be a costly mistake e.g. just buying into a business does not guarantee that they will acquire the talent, which may leave as they are unhappy about *BSkyB* buying such a major share e.g. *Love Productions* customers may not like the association with a major organisation like *BSkyB* e.g. public taste may change and *Love Productions* shows may lose popularity e.g. there may be a culture clash between the companies resulting in poor performance e.g. economies of scale may not materialise because of difficulties in communication and coordination possibly leading to diseconomies of scale e.g. having had to buy 70% of the shares, may mean opportunity cost for *BSkyB*

Question Number	Question	
7	*BSkyB* is changing its name and rebranding itself as *Sky.* Evaluate the extent to which this will improve *Sky*'s competitive advantage. (Evidence G)	20 marks

Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of competitive advantage and/or rebranding *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.*	e.g. competitive advantage is any feature of a business that helps to differentiate it from other similar businesses e.g. the decision to change a fundamental aspect of the corporate image, how it represents itself to stakeholders, such as the name/branding/ logo/image
2	3-6	Application must be present, i.e. the answer must be contextualised and relate to the evidence provided about *Sky*'s *competitive advantage* from rebranding **Low Level 2:** 3–4 marks. Candidate makes a basic comments on competitive advantage from rebranding, as applied to *BSkyB* **High Level 2:** 5–6 marks. Candidate makes a detailed reference to competitive advantage from rebranding, as applied to *BSkyB* *Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.*	e.g. the competitive advantage outlined in Evidence G is based on rebranding e.g. the word 'British' is to be dropped from the name of the business e.g. the word 'Broadcasting' has been dropped from the name of the business e.g. *BSkyB* is moving into the European market e.g. *BSkyB* is reverting to its original name

3	7-12	Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of the rebranding and how it affects the competitive advantage of *Sky* **Low Level 3:** 7-9 marks. Candidate will attempt a very basic analysis, making general points, on one or two elements from evidence. **High Level 3:** 10-12 marks. Candidate makes a more detailed analysis, making specific points, on elements drawn from across the evidence. **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.*	e.g. businesses believe that rebranding is needed to better reflect current media availability/usage e.g. it has dropped 'British' because it is moving into the European market and does not wish to be associated with a single country e.g. it has dropped 'Broadcasting' because the concept is too narrow and may be perceived as being old fashioned. e.g. rebranding should increase the appeal of *Sky* to customers who do not have any association with the old *BSkyB* name e.g. rebranding should help the business move on from any negative association with the old name e.g. the word '*Sky*' is short and simple to pronounce, which should help spread the name through the wider European market

4	13-20	Evaluation must be present and in context, based on the extent to which rebranding improves the competitive advantage of *Sky* **Low Level 4:** 13-14 marks. Some evaluative points are made, referring to the drawbacks of *Sky's* decision **Mid Level 4:** 15-17 marks. Candidate gives a range of arguments, drawn from different pieces of evidence to show how the rebranding could be problematic **High Level 4:** 18-20 marks. Candidate gives a wide range of arguments, to highlight the drawbacks of rebranding Several strands may be developed; the answer is clear and articulate leading to a convincing conclusion **N.B. if there is evaluation but no context at all, then 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.*	e.g. a simple change of name will do little to fool consumers who have negative associations with *BSkyB* e.g. rebranding is extremely costly, as the change will need to be made everywhere the old *BSkyB* name appears, such as advertising/ signage/ stationery/ company uniforms e.g. rebranding is extremely wasteful, as all materials bearing the old name will need to be scrapped e.g. for it to succeed, all employees must be trained to use to the new *Sky* name e.g. the decision to change the name is not a foregone conclusion, it must still be agreed by shareholders, who may not approve e.g. branding is just one element of the marketing mix, name change may in itself be insufficient to improve competitive advantage e.g. the name change is not sufficiently different to make much difference to competitive advantage e.g. the quality and range of programmes on offer is arguably more important than a name change

Question	knowledge	application	analysis	evaluation	TOTAL
1a	2	-	-	-	2
1b	2	-	-	-	2
2	2	2	2	-	6
3	2	2	4	-	8
4	2	2	3	3	10
5	2	2	3	5	12
6	2	4	6	8	20
7	2	4	6	8	20
TOTAL	16	16	24	24	80

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