



General Certificate of Education

Business Studies 6131

BU5W Business Report and Essay

Mark Scheme

2007 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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General Marking Guidance

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a levels of response approach is that there may be more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

- 1 Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, eg an advantage of factoring.
- 2 Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
- 3 Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
- 4 Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment." It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

- | | | |
|---------|---|----------------|
| LEVEL 4 | Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling. | 4 marks |
| LEVEL 3 | Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling. | 3 marks |
| LEVEL 2 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas. | 2 marks |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. | 1 mark |

Total 4 marks

1

Total for this question: 40 marks

You are a Management Consultant hired by Hannah. With reference to the appendices included on pages 4 and 5, analyse the main strengths and weaknesses of Ashton Ltd's position. Based on this analysis, write a report to Hannah recommending the actions she should take to achieve her objective. *(2 marks are included for appropriate report format)*
(40 marks)

Possible answers might include the following:

Strengths of Ashton's existing position:

- Hannah's marketing experience; could help generate more business, especially if the business starts targeting other countries in the European Union
- locations should be attractive to visitors and two of the hotels have relatively high star ratings, so provided these stars are not lost this is an asset (but may need to act fairly soon before next inspection)
- financial position: current assets greater than current liabilities so the firm is liquid; relatively low borrowing; should be able to raise finance if needed
- average room occupancy has increased; spreads overheads and reduces unit costs (but still not matching UK average which seems poor given the locations).

Positive external developments:

- falling UK interest rates could encourage more holidays by UK households (but will these holidays be in the UK or abroad?)
- the pound is estimated to fall against the euro which may attract more European visitors; proportion of Ashton hotel guests has fallen in recent years but this may help turn the trend
- real GDP growth in the European Union may stimulate tourism from abroad (especially if the pound is weaker); for the UK as a whole this is expected to be an increasing proportion of visitors so Ashton could benefit from this trend especially as demand is estimated to be income elastic
- the overall share of European visitors to UK is increasing suggesting it is an attractive market to target.

Weaknesses of Ashton's position:

- The Bath House seems to have particular problems with staff; it has higher labour turnover with all the problems these can cause, plus a higher number of complaints and one less star from The Great UK Hotel Guide
- making losses and yet still paying dividends
- seasonal business with all this brings with it, eg staffing issues, cash flow problems
- high proportion of staff are permanent, salaried rather than temporary; (high relative to industry average); may increase overheads and may not be desirable in seasonal business
- fall in price per room; this may be being used so managers can achieve occupancy targets and achieve bonuses. Is it damaging profit margins and image? Is it the right pricing strategy for this type of business?
- amount spent on top of room rate is falling; quality of services, eg food and bar may not be good enough and may need investment
- low and falling level of customer loyalty; suggests there are problems with facilities or service; always more expensive to attract new customers than repeat visitors
- decentralised purchasing of supplies and training losing potential economies of scale.

Recommendations:

- produce profit and loss accounts for each individual hotel to increase accountability of managers (reverse what seems to be a laissez-faire approach)
- co-ordinate the activities of the three hotels wherever relevant and beneficial, eg possibly buy some supplies for all three to reduce unit costs
- share best practice, eg learn from The Spires to improve the management of people at The Bath House
- change reward system for managers, eg to focus on customer satisfaction and not just room occupancy
- invest, eg to reduce complaints and help The Bath House regain its star. Need to get on with this if next inspection is in 2010
- target Europe more; this would build on Hannah's experience and she could also use her marketing expertise. Europe looks an attractive segment for variety of reasons so could develop relevant marketing strategy. This would involve changes to the marketing budget
- marketing budget seems low and focused domestically and on US. Refocus on other EU countries?

Business report

Skill	Marks	Description
Content		
Level 3	8–6	Good understanding/explanation of relevant factors, eg range of factors understood and/or depth of understanding
Level 2	5–3	Reasonable understanding/explanation of relevant factor(s)
Level 1	2–1	Limited understanding, eg descriptive or basic/imprecise understanding of relevant factor(s)
Level 0	0	No understanding demonstrated
Application		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
Analysis		
Level 3	8–6	Good analysis, eg relevant factor(s) well developed
Level 2	5–3	Reasonable analysis of relevant factor(s)
Level 1	2–1	Limited analysis of relevant factor(s)
Level 0	0	No analysis
Synthesis		
Level 3	5–4	Well structured report
Level 2	3–2	Reasonable structure
Level 1	1	Poor structure
Level 0	0	No structure
Evaluation/judgement/recommendations		
Level 3	11–8	Good recommendation/evaluation/judgement
Level 2	7–3	Reasonable recommendations/evaluation/judgement
Level 1	2–1	Limited recommendations/evaluation/judgement
Level 0	0	No evaluation/recommendations

2**Total for this question: 40 marks**

The world's largest mining company, BHP Billiton, recently announced record profits of over £5 billion due, in part, to the high market price of metals such as copper and aluminium. At the same time, employees at its largest copper mine, which is in Chile, were on strike demanding a rise of 8% in basic pay and a bonus of £10 000 each. To what extent should BHP Billiton accept these demands? *(40 marks)*

Possible answers might include the following:

- may be the right thing to do; might argue it is ethical to share rewards to a greater extent with those who helped generate it
- may remove unwanted media attention
- the company has other responsibilities, eg to investors
- may not actually have the money available, eg debtors
- might argue the boost in profits was more due to external factors such as the world demand for metals rather than employees' actions so do they deserve higher rewards?

Depends:

- on how likely it is this will be repeated; would employees want to share in losses in less successful years? If employees want to share rewards would they accept a pay scheme based entirely on profit share?
- will it set a precedent and trigger more demands?
- in this particular case, how significant is copper and this mine relative to the overall profits of the company/what proportion is being requested – obviously labour has an effect on profits but these kinds of industries are very capital intensive so investment decisions are also very significant. May want/need funds to generate more profits in the future and provide greater job security
- how well organised are the employees? What is their bargaining power?
- what are firm's stocks of copper?
- how many employees involved?
- what are the absolute numbers, ie 8% of what?
- whether it may trigger more demands elsewhere in the business.

3**Total for this question: 40 marks**

The coffee retail chain, Starbucks, has achieved an average annual sales growth of over 20% in recent years. It now has over 10 000 outlets and operates in nearly 40 countries. Should the directors of Starbucks aim to maintain this fast rate of growth in the future? (40 marks)

Possible answers might include the following:

- raises brand awareness
- may generate more long-term profits
- first mover advantage in cities and countries
- part of the firm's strategy is to "surround" the competition
- may meet owner's objectives.

But:

- continued fast growth at this rate becomes increasingly difficult (need bigger absolute increases in sales)
- may create problems managing the business (eg diseconomies of scale); Starbucks likely to be geographically spread so particular problems here
- may create competition issues if growth focused on a particular region
- may create financial problems (eg overtrading).

Depends on:

- objectives of the owners and managers
- systems developed to manage the process
- public opinion (eg some criticism of Starbucks and its growth rate)
- pressure for short-term returns.

4

Total for this question: 40 marks

The large American firm, Heinz, produces a wide range of food products. In 2006, it announced the closure of its HP sauce factory in Birmingham, England, with production being switched to the Netherlands. This led to the loss of 120 jobs but was expected to result in a reduction of £25m in costs over 10 years. To what extent is this decision to move production of HP sauce likely to benefit Heinz's stakeholders? *(40 marks)*

Possible answers might include the following:

- Heinz shareholders may benefit from lower costs and higher rewards, eg higher dividends
- UK suppliers may suffer due to lost orders; also loss of jobs in Birmingham with potential knock-on effects of this
- customers may benefit from lower costs if this translates into lower prices
- UK government may lose tax revenue
- unemployment in Birmingham may affect the community
- may help keep the firm competitive and so benefit stakeholders in the long run.

Overall

- not a huge number of jobs involved
- in the overall context of Heinz this may have relatively little effect
- depends which stakeholder group and how it is handled, eg what efforts are made to help employees find alternative jobs; are any offered relocation to Holland?
- depends on how it is handled, eg way the redundancies are managed
- depends on success of the move.

5**Total for this question: 40 marks**

The UK shampoo market is dominated by large, multinational, multi-product companies such as Procter & Gamble and Johnson & Johnson. Halos 'n' Horns is a newly established business that entered the market in 2005 producing children's shampoos that are particularly kind to the skin. Evaluate the ways in which the established firms might react when a new company such as Halos 'n' Horns enters the shampoo market. *(40 marks)*

Possible answers might include the following:

- try to undercut the price to take away sales
- start aggressive marketing campaign (eg to promote their own brands)
- pressurise retailers to prevent them stocking the new product
- imitate the idea
- ignore it
- buy the company.

Depends on:

- how much of a threat it is perceived to be
- what proportion of their overall sales are threatened
- how easy it is to imitate
- whether it works or not
- short run v long run (eg may develop similar products in the long run if they seem to be gaining market share).

Essay

Skill	Marks	Description
Content		
Level 3	8–6	Good understanding/explanation of relevant factors (range and/or depth)
Level 2	5–3	Reasonable understanding/explanation of relevant factor(s)
Level 1	2–1	Limited understanding, eg descriptive or very basic/imprecise understanding of relevant factor(s)
Level 0	0	No understanding
Application		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
Analysis		
Level 3	8–6	Good analysis, eg relevant factor(s) well developed
Level 2	5–3	Reasonable analysis of relevant factor(s)
Level 1	2–1	Limited analysis of relevant factor(s)
Level 0	0	No analysis
Evaluation/judgement		
Level 3	16–12	Good judgement/evaluation
Level 2	11–6	Reasonable judgement/evaluation
Level 1	5–1	Limited judgement/evaluation
Level 0	0	No judgement/evaluation