



**General Certificate of Education
January 2011**

GCE Business Studies

BUSS2

Managing a Business

Unit 2

Final

Mark Scheme

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 standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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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Assessment Objectives	
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or 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. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate The assessment of the quality of written communication is included in Assessment Objective 4 .

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5, full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to question 1(c), a candidate might achieve good marks for application by arguing in support of changing structure because the ten proposed redundancies, including managers, will reduce the business's costs substantially and this will be important for this business as its profits are only £5 million and below the figure set out in the budget.
- **By manipulating data.** For example, when answering question 1(d), candidates might use the data in **Figure 1** to calculate that the increase in the population aged over 55 is 2.45 million. When used as part of an argument, presumably about the importance of remaining in the niche market, this is good application.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario.

If a candidate makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering question 1(b), could be that operating budgets to control expenditure is essential because the company is investing £25 million in buying new hotels.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to question 2(c), a line of argument which puts the case for negotiating improved trade credit terms with suppliers and analyses how this will delay the timing of cash outflows, thereby strengthening the company's net cash-flow without incurring any costs, would represent good analysis.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question, for example, in question 2(d), the use of robotic production on the production line leading to increased output and higher profits. Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 40 marks

1 (a) Explain why <i>Shearings</i> uses advertising as an important form of promotion. <i>(5 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
L3	Good application	5–4	AO2
L2	Reasonable application	3–2	
L1	Knowledge	1	AO1

Relevant answers might include the following:

Definition: advertising is a paid for method of communicating with customers.

- *Shearings* competes against larger rivals such as Thomas Cook and needs to protect its market share
- *Shearings* is targeting a different and younger market segment, aged under 55, and needs to communicate with this segment
- the company has launched new brands and needs to raise consumer awareness of this.

1 (b) Analyse **two** benefits that *Shearings* might receive from its use of budgets. (8 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	8–7	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

Definition: a budget is a financial plan.

- the company expects little or no increase in revenues but has invested in new coaches and hotels so will need to control its costs to maintain its level of profits
- the business is expanding by opening new hotels and giving employees budgets to manage could help with motivation
- the use of budgets will help the company's managers to monitor the financial state of the business as it expands
- sales revenue and profit budgets can be (and are) used as targets to help improve the performance of the company's managers.

- 1 (c)** *Shearings* has changed its organisational structure to create two separate divisions. To what extent might this new structure improve the performance of the business?
(13 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	7–6	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

Definition: an organisational structure is the way a business is arranged to carry out its activities.

- *Shearings* is a growing business and this separation will help to maintain narrower spans of control allowing a greater degree of delegation
- the company is developing new brands such as ‘Coast and Country Hotels’ and a specialist division might manage this more effectively
- communication might improve within the two divisions as they are smaller and fewer levels of hierarchy but, overall, it may be poorer because of the separation of the divisions
- the redundancies associated with this change may impact on motivation and performance as security needs may be met less fully
- the company only employs 3000 people and as a single unit would not have too wide spans of control or too many levels of hierarchy
- this decision may increase *Shearing’s* costs as some roles may be duplicated (and its costs are forecast to rise anyway).

Ideas for Evaluation might include the following:

- much will depend on whether staff are given training in their new roles
- financial performance may dip in the short term due to impact of redundancies and people in new roles
- many other factors will affect the business’s performance such as the success of its expansion plans
- it may depend on how the performance of the business is measured.

See next page for Evaluation grid.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	4–3	AO4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	2	
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1	

- 1 (d) Do you agree with *Shearings*' decision to move into the mass market for holiday services? Justify your decision. (14 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	10–9	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

Definition: a mass market has large numbers of consumers, often purchasing similar types of products.

In favour of this decision:

- the company will be able to target a much larger market in the UK (and not just 30% of people in the UK) and this will help it to achieve its expansion plans
- the company has launched its first new brand 'Country and Coast Hotels' and this has been successful, suggesting that further brands should be launched
- the size of the 55+ market is growing and this may attract other major holiday firms such as Thomas Cook – this could result in *Shearings* losing sales
- the development of new brands for the mass market may help the company to maintain its existing customers.

Against this decision:

- the company has 'an excellent reputation' in its niche market. Moving out of this is risky and may alienate loyal customers
- rivals in the mass market (such as Thomas Cook) will be very competitive and may be able to offer lower prices
- the number and percentage of people in the age 55+ segment is growing – *Shearings* is already operating in the correct market segment
- its profit margin is only 2.75% which is not a good basis for investing in further expansion
- a £2 million annual budget for advertising for this project seems very small.

Issues for Evaluation might include the following:

- this is a difficult move to make at a time when costs are rising and *Shearings* profits are small and below expectations
- this might be an essential long-term move if the company is to achieve its target of expansion
- developing new brands to achieve this move might be a lower risk approach.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	4–3	AO4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	2	
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1	

2

Total for this question: 40 marks

2 (a) Calculate <i>Velocity Ltd's</i> capacity utilisation for 2010. (5 marks)

Relevant answers might include the following:

- capacity utilisation is a measure which compares a business's current output with its maximum possible output (**2 marks**)
- capacity utilisation = current output per time period x 100/maximum output per time period (**2 marks**)
- *Velocity Ltd* increased its maximum capacity in 2010 by 17% to 234 cars (**1 mark**) annually (200 cars x 1.17)
- its average monthly production in 2010 19 cars
Total of 228 cars (19 x 12) (**2 marks**) in 2010
- utilisation = $228 \times 100 / 234 = 97.44\%$ (**1 mark for correct answer plus 1 mark for expressing as a percentage**) capacity utilisation in 2010.

(AO1/AO2)

2 (b) Analyse the possible reasons why *Velocity Ltd*'s managers have empowered the company's workforce. (8 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	8–7	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

Definition: empowerment is a series of actions intended to give employees greater control over their working lives.

- the company's employees are highly skilled and able to make decisions regularly about how to organise their working lives
- the company invests in regular training giving employees the necessary skills to make decisions and to benefit from empowerment
- the management team at *Velocity Ltd* is relatively small and the structure is flat giving a span of control of 14 – it is therefore necessary for employees to organise their working lives
- empowerment can have a positive effect on employee motivation and performance – Herzberg considered it to be a motivator, for example
- *Velocity Ltd* has organised its workforce into teams and this structure supports the use of empowerment
- to minimise labour turnover due to the high costs of training new employees.

- 2 (c)** Discuss whether increasing its overdraft limit is the best way for *Velocity Ltd* to improve its cash flow position. (13 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	7–6	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

- cash flow is the movement of money into and out of a business over time
- an overdraft is a flexible loan on which a business can draw up to some agreed limit.

Arguments in favour of using an overdraft:

- this could be agreed relatively quickly and the company could benefit from a rapid inflow of cash as it is very near to its overdraft limit (only £12 100 below it)
- it may be that *Tempo* produces a major inflow of cash from February onwards which would make a short-term increase in the company's overdraft limit an appropriate remedy
- arranging a larger overdraft limit quickly would avoid the possibility of incurring more 'high penalty charges'
- the company's cash flow problems only occurred in late 2010 alongside the development of *Tempo* and this suggests that they may be short term, making an overdraft increase appropriate.

Arguments against using an overdraft:

- overdrafts are often expensive and *Velocity Ltd* is proposing to potentially have an overdraft of £2 million. Interest charges could be very high
- the company receives very little trade credit from its suppliers (only 11 days) and negotiating an improvement here would provide a 'free' source of cash
- the company owns a large site in Wimbledon offering the opportunity for a sale and leaseback deal providing a large inflow of cash (but a steady outflow thereafter)
- *Velocity Ltd* is owed £2.75 million by its customers. Surely chasing this up should be a priority as it is providing free loans when it is short of cash.

Ideas for Evaluation might include the following:

- much depends on whether *Tempo* is successful in generating a major cash inflow in the near future
- an increase in the company's overdraft limit is not the best way in terms of costs
- the increased overdraft may be the best approach in the short term.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

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E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	4–3	AO4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	2	
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1	

2 (d) Some of *Velocity Ltd's* directors support the use of more technology in its operations. Do you agree with them? Justify your view. (14 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	7–6	
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4	
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3	
L1	Knowledge	2–1	

Relevant answers might include the following:

- operations refers to the process of transforming inputs into outputs.

Arguments in support of using more technology:

- this could help the company to increase labour productivity as it is near to full capacity utilisation (97.44% - OFR!)
- Tempo* could result in a major increase in sales and the company needs to be able to supply these products – robotic production should help to increase productivity
- the company provides technical consultancy services to other firms – using the latest technology and using it more extensively might provide the basis of future training
- the labour force is expensive – a 20% pay rise only produced a 17% increase in production. Technology may be cheaper.

Arguments against the use of more technology:

- the company's reputation is based on producing cars using traditional craft methods – this seems like throwing away a USP
- can *Velocity Ltd* afford this investment – this would take nearly two years' profits
- would the company's productivity actually fall in the use of more technology, lead to redundancies, loss of empowerment or less use of teams?
- will *Velocity Ltd's* weak cash position permit additional expenditure on training or redundancy payments?
- if the company increases its output too much then it may not be able to charge such premium prices.

Ideas for Evaluation might include the following:

- it depends on the company's objectives: does it want to increase its scale?
- the extent to which the introduction of new technology affects the way the workforce operates will be an important determinant
- perhaps simply making more use of technology in design might be the best option.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4	AO4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2	
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1	