



General Certificate of Education (A-level)
June 2012

Business Studies

BUSS3

(Specification 2130)

Unit 3: Strategies for Success

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 the 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 students' 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 students' 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 students' 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 students' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Students give accurate definitions of relevant terms. Students 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	Students 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. Students will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Students use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, students 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	Students 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. Students 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 students are required to produce extended written material. Students 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

The marking scheme requires decisions to be made on whether students' responses represent limited, reasonable or good application and limited, reasonable or good analysis. If a response demonstrates good analysis and good 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, reasonable or limited, please use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By being consistently in context.** An answer may be in context throughout with each argument related to the scenario.
- **By combining data.** An answer may link separate items of information from the case study and/or appendices. Also, the answer may include relevant calculations using data from the case study and/or appendices.

Reasonable application could typically be awarded by correctly calculating an appropriate financial ratio, ie for correctly selecting the right figures from the data and then using them in the correct way. Also this can be awarded for an answer that uses a relevant piece of data or information from the case study to support a relevant argument.

Limited application would be shown by correctly identifying a piece of data from the case study.

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

ANALYSIS

Limited analysis would be displayed by a student offering a simple yet valid statement of cause and/or effect within their answer. For example, increased spending on advertising could lead to increased sales.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, increased spending on advertising would create increased interest and awareness which could result in increased sales.

Good analysis is shown when a student develops a chain of argument with a clear focus on the question.

Simple points or ideas expressed without any development should 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. Level 3 marks should be awarded to students who make judgements clearly related to the original question which is supported by the arguments offered elsewhere in their answer.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the student's evaluation. For example, a student 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: 10 marks

Using the data in **Appendix A** and the case study, analyse the profitability and asset turnover of Superstyle plc between 2011 and 2012. (10 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	10
L4	Good application AND Reasonable analysis <i>Or</i> Good analysis AND Reasonable application	9–8
L3	Reasonable application AND Reasonable analysis <i>Or</i> Good application <i>Or</i> Good analysis	7–6
L2	Reasonable application <i>Or</i> Reasonable analysis	5–2
L1	Limited response primarily based on knowledge	1

Asset turnover: $\frac{200\,000}{83\,973} = 2.38$

Gross profit margin: $\frac{93\,897}{200\,000} \times 100 = 46.9\%$

Operating profit margin: $\frac{40\,456}{200\,000} \times 100 = 20.2\%$

ROCE: $\frac{40\,456}{116\,973} \times 100 = 34.58\%$

- asset turnover has decreased from 4.83 to 2.38 but this is due to the significant increase in net assets
- the increase in net assets has primarily been caused by the rise in non-current assets, namely the increase in the number of stores and increased production capacity
- ROCE has improved from 30% to 34.58% and the business is generating impressive profitability levels. This is due to being able to charge premium prices combined with its lower unit costs
- the high levels of profitability may make it easier to attract future investors and impress shareholders.

2

Total for this question: 18 marks

Was the high level of popularity of the Superstyle brand due to the effectiveness of its market analysis or other factors? Justify your answer. (18 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	13–12
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	11–9
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	8–6
L2	Reasonable application <i>or</i> Reasonable analysis	5–4
L1	Limited response primarily based on knowledge	3–1

Market analysis occurs when a business undertakes a detailed examination of a market.

Effective marketing is achieved by a business when it has a good understanding of its customers' needs and is able to meet these successfully.

Popularity can be expressed in terms of: high levels of sales, market share, profits, as well as positive brand image.

Possible issues for application:

- the current success of the business is due to its ability to achieve high levels of understanding of fashion and consumer trends
- this is particularly important in the fast changing fashion market
- *Superstyle plc* brings out new product lines regularly
- 20% of its revenue is spent on marketing and a significant amount of the marketing budget is spent on market research
- promotion is important - the company has achieved an image of premium quality
- distribution - delivery time from the factory is three days compared to the industry average of seven
- David Beckham and Zac Efron were seen wearing *Superstyle* clothes
- high levels of quality (3% faulty products compared to industry average of 7%)
- employees are viewed as a key contributor to the success of the business.

Possible examples of good application could include:

- linking the high levels of marketing spending and research to developing new product lines regularly
- linking the image of premium quality to relevant data such as the lower level of faulty products, higher number of kaizen groups and higher percentage of revenue spent on R&D compared to the industry average.

Possible lines of analysis:

- significant spending on market research is crucial in identifying and responding to fashion and consumer trends
- effective market analysis enables *Superstyle plc* to bring out new product lines regularly
- promotion ensures that consumers are aware of *Superstyle* products and maintains their interest
- the quality image attracts customers who are prepared to pay premium prices
- effective distribution enables products to be in the outlets quicker and ensures that they are fully stocked
- the good treatment of employees may enhance the company's image and attract customers.

Points for Evaluation might include the following:

- a weighing up of the importance of market analysis relative to other elements
- in a market as fast changing as fashion, information can quickly become out-of-date.

To award **good evaluation** the student needs to focus on whether popularity was due to market analysis relative to other elements.

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

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	5–4
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

3

Total for this question: 18 marks

Do you think that it was the employees or the use of lean production that contributed most of the success of Superstyle plc? Justify your view. (18 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	13–12
L4	Good application AND Reasonable analysis or Good analysis AND Reasonable application	11–9
L3	Reasonable application AND Reasonable analysis or Good application or Good analysis	8–6
L2	Reasonable application or Reasonable analysis	5–4
L1	Limited response primarily based on knowledge	3–1

Definition: Lean production is a production system that is based upon a range of waste saving measures.

Possible issues for application:

- unit cost is lower than the industry average
- the use of CPA enables quicker development of new products
- JIT has enabled the factory to deliver to the retail outlets in three days compared to the industry average of seven
- *Superstyle plc's* suppliers are all located in the UK and have worked with the business for several years
- the use of TQM and kaizen has resulted in only 3% faulty products compared to the industry average of 7% and contributed to the company's reputation for premium quality
- the gross profit margin of 46.9% in 2012 could be attributable to the efficiency of lean production
- high levels of operational performance, low absenteeism and labour turnover
- motivated workforce who have a direct stake in the business through share ownership (5% of shares are owned by employees)
- only 10% of staff are currently on temporary contracts.

Examples of good application could include:

- the use of TQM and kaizen has resulted in both lower defects (3% compared to 7%) and unit costs (80 compared to 100). This has contributed to the premium quality image enabling the company to charge premium prices and have price inelastic demand (-0.5)
- well established links with UK based suppliers has enabled effective use of JIT, enabling quicker delivery times from the factory to the retail units (3 days compared to 7)
- the majority of staff (90%) are currently on permanent contracts, have a generous pension and share ownership scheme. This can be linked to low levels of absenteeism and labour turnover resulting in high levels of operational performance (unit costs lower than industry average).

Possible lines of analysis:

- lower unit costs enable the business to achieve higher profit margins
- quicker development of new products is a source of competitive advantage especially in the fashion industry
- JIT would reduce stockholding costs, improve cash flow and quicker delivery times
- fewer faulty products means lower costs plus the reputation for quality enables the company to charge premium prices
- motivated workforce means that the company benefits from improved efficiency and has lower costs resulting from less absenteeism and lower labour turnover
- share ownership and the facts that most staff are on permanent contracts could mean that the workforce are more committed to the business.

Points for Evaluation might include the following:

- lean production has enabled the business to achieve greater efficiency and quality which are key to success
- it could be argued that the success of many elements of lean production, such as kaizen and TQM are dependent upon a trained and motivated workforce.

To award **good evaluation** the student needs to weigh up the relative importance of lean production compared to the employees and make a supported justification of which element contributed the most to the success of *Superstyle plc*.

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

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	5–4
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

4

Total for this question: 34 marks

Using all the information available to you, complete the following tasks:

- analyse the case **for** Gemma's proposed strategy
- analyse the case **against** Gemma's proposed strategy
- make a justified recommendation on whether Gemma's proposed strategy should be adopted. (34 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	24–21
L4	Good application AND Reasonable analysis or Good analysis AND Reasonable application	20–16
L3	Reasonable application AND Reasonable analysis or Good application or Good analysis	15–11
L2	Reasonable analysis or Reasonable application	10–6
L1	Limited response primarily based on knowledge	5–1

Arguments for the strategy might include the following:

Possible issues for application:

- Superstyle plc* has made impressive gains in both revenue, profitability and a rising share price
- it is low geared and would be considered low risk
- profit margin is currently 20.2% and ROCE is high and improving
- Superstyle plc* has a strong brand image and a reputation for good quality which should enable it to penetrate new markets
- it is innovative and regularly brings out new product lines.

An example of **good application** could include linking low gearing and good profitability with the potential to attract investors for the proposal.

Possible lines of analysis:

- financially, the business should prove attractive to potential shareholders and be able to raise the required £200m for the proposed strategy
- the strong brand image and quality reputation should enable it to penetrate new markets
- bringing out new product lines is crucial for the fashion industry.

Arguments against the strategy might include the following:

Possible issues for application:

- the new strategy proposes spending less on marketing as a % of revenue
- pricing strategy appears to be to lower prices and PED is forecast to rise
- R+D spending is to be reduced
- outsourcing of production to China, India and Brazil
- there appears to be a harder 'HR' approach with the increase in temporary staff, greater use of bonuses, narrower spans of control and dilution of employee share ownership
- Naheem appears to be marginalised to predominantly focus on marketing and new product development
- overseas expansion through franchising – how much control will *Superstyle plc* have over its franchisees?

An example of **good application** could include the risk of damaging the premium quality image by increased outsourcing and the change to a harder 'HR' approach. This could create problems with morale which could affect the use of kaizen and TQM.

Possible lines of analysis:

- spending less on marketing as a % of revenue could result in poorer market analysis and lower levels of promotional spending
- lower prices and higher PED may conflict with the image of premium quality clothing
- reduction in R+D spending could result in less innovation
- outsourcing could lead to logistical and quality problems
- 'harder' HR approach could result in lower morale
- possible lack of control over overseas franchises could damage the company's image.

Points for Evaluation might include the following:

- how realistic is the proposed strategy?
- the company intends to expand overseas – do they have the necessary resources to achieve this?
- *Superstyle plc* has yet to pay a dividend to its shareholders – this may deter future investors
- is selling additional shares the best way to raise £200m? Especially as the company is low geared and its current ratio could be considered to be too high
- how would Naheem, as the majority shareholder, react to his proposed new role?
- according to Ansoff, this strategy would be considered as market development and, consequently, is riskier than market penetration.

Examples of good evaluation could include:

- the student makes a well supported justification that recommends why the proposed strategy should *or* should not be adopted
- evidence that the student has prioritised the most important reason(s) for their recommendation
- the student has made well supported recommendations for any future actions that the business may need to consider.

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

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	10–8
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	7–4
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	3–1